

In the opinion of Ice Miller, Indianapolis, Indiana, Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2005 Bonds, as defined herein, is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. Such exclusion is conditioned upon continuing compliance by the Authority, the Corporation and the Obligated Group Members with the Tax Covenants, all as defined herein. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2005 Bonds is exempt from income taxation in the State of Indiana. See "TAX MATTERS" herein.

**BAPTIST HOMES
OF INDIANA, INC.**

\$47,905,000



INDIANA HEALTH AND EDUCATIONAL FACILITY FINANCING AUTHORITY
Revenue Bonds, Series 2005 (Baptist Homes of Indiana)

Dates, Interest Rates, Prices, Yields and CUSIPs Are Shown on the Inside of the Front Cover

The Indiana Health and Educational Facility Financing Authority (the "Authority") is issuing its \$47,905,000 Revenue Bonds, Series 2005 (Baptist Homes of Indiana) (the "Series 2005 Bonds") under a Bond Trust Indenture (the "Bond Indenture") between the Authority and Wells Fargo Bank, National Association, Chicago, Illinois, as bond trustee (the "Bond Trustee"). The proceeds of the Series 2005 Bonds will be loaned to Baptist Homes of Indiana, Inc. (the "Corporation") pursuant to the Loan Agreement (as described herein) and will be used, together with certain other funds, primarily to (i) refund the outstanding balance of the Authority's Variable Rate Demand Revenue Bonds (Baptist Homes of Indiana) Series 2000 (the "Prior Bonds"); (ii) fund a project fund to be used by the Corporation to make capital additions and improvements to its facilities (the "Project"); (iii) fund a debt service reserve fund for the Series 2005 Bonds; and (iv) pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds. The sources of payment of, and security for, the Series 2005 Bonds are more fully described in this Official Statement.

The Series 2005 Bonds, when issued, will be registered initially only in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). See **"BOOK-ENTRY SYSTEM."**

An investment in the Series 2005 Bonds involves a certain degree of risk related to the nature of the business of the Corporation, the regulatory environment, and the provisions of the principal documents. A prospective Series 2005 Bondholder is advised to read **"SECURITY FOR THE SERIES 2005 BONDS," "SECURITY FOR THE SERIES 2005 NOTE"** and **"RISK FACTORS"** herein for a description of the security for the Series 2005 Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Series 2005 Bonds.

THE SERIES 2005 BONDS WILL BE SUBJECT TO OPTIONAL, MANDATORY AND EXTRAORDINARY REDEMPTION, AS MORE FULLY DESCRIBED HEREIN.

THE SERIES 2005 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE AUTHORITY AND WILL BE PAYABLE SOLELY FROM AND SECURED EXCLUSIVELY BY PAYMENTS, REVENUES AND OTHER AMOUNTS PLEDGED THERETO PURSUANT TO THE BOND INDENTURE. THE SERIES 2005 BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE AUTHORITY OR THE STATE WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OR A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY OR THE STATE, AND THE SERIES 2005 BONDS DO NOT GRANT TO THE OWNERS OR HOLDERS THEREOF ANY RIGHT TO HAVE THE AUTHORITY OR THE STATE LEVY ANY TAXES OR APPROPRIATE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF AND INTEREST THEREON. THE AUTHORITY HAS NO TAXING POWER.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR THE INTEREST ON ANY SERIES 2005 BOND OR FOR ANY CLAIM BASED THEREON OR ON THE BOND INDENTURE, AGAINST ANY PAST, PRESENT OR FUTURE MEMBER, OFFICER, DIRECTOR, EMPLOYEE OR AGENT, AS SUCH OF THE AUTHORITY OR OF ANY PREDECESSOR OR SUCCESSOR ENTITY, EITHER DIRECTLY OR THROUGH THE AUTHORITY OR OTHERWISE, WHETHER BY VIRTUE OF ANY CONSTITUTION, STATUTE OR RULE OF LAW, OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY, OR OTHERWISE.

The Series 2005 Bonds are being offered when, as and if issued and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality of the Series 2005 Bonds by Ice Miller, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed upon for the Authority by Ice Miller, Indianapolis, Indiana; for the Corporation and the Foundation by their counsel, Hawk, Haynie, Kammeyer & Chickedantz, LLP, Fort Wayne, Indiana; and for the Underwriter by its counsel, Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana. It is expected that the Series 2005 Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about December 21, 2005.

This cover page contains certain information for ease of reference only. It does not constitute a summary of the Series 2005 Bonds or the security therefor. Potential investors must read this entire Official Statement, including the Appendices, to obtain information essential to the making of an informed investment decision.

ZIEGLER CAPITAL MARKETS GROUP

a division of B.C. Ziegler and Company

Official Statement dated December 9, 2005

THE SERIES 2005 BONDS

Dated: Date of Delivery

Due: November 15, as shown below

The Series 2005 Bonds will be issuable in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2005 Bonds will be payable on each May 15 and November 15, commencing on May 15, 2006.

MATURITY SCHEDULE

| November 15 of the Year | Principal Amount | Interest Rate | Price | CUSIP |
|------------------------------------|-----------------------------|--------------------------|--------------|--------------|
| 2006 | \$ 640,000 | 5.000% | 101.048% | 454795AN5 |
| 2007 | 740,000 | 5.000 | 102.083 | 454795AP0 |
| 2008 | 780,000 | 5.000 | 102.984 | 454795AQ8 |
| 2009 | 815,000 | 5.000 | 103.574 | 454795AR6 |
| 2010 | 860,000 | 5.000 | 103.954 | 454795AS4 |
| 2013 | 1,000,000 | 5.000 | 103.963 | 454795AU9 |
| 2014 | 1,050,000 | 5.000 | 103.629 | 454795AV7 |
| 2015 | 1,095,000 | 5.000 | 103.550 | 454795AW5 |

\$1,855,000 5.00% Term Bonds Due November 15, 2012; Price: 104.137% CUSIP: 454795AT2

\$14,640,000 5.25% Term Bonds due November 15, 2025; Price: 102.320%^c CUSIP: 454795AX3

\$24,430,000 5.25% Term Bonds due November 15, 2035; Price: 100.377%^c CUSIP: 454795AY1

^c Priced to call date of November 15, 2015.



**Main Entrance Hoosier Village
Zionsville, Indiana**



**Example of Woodside Homes of Hoosier Village Campus
Zionsville, Indiana**



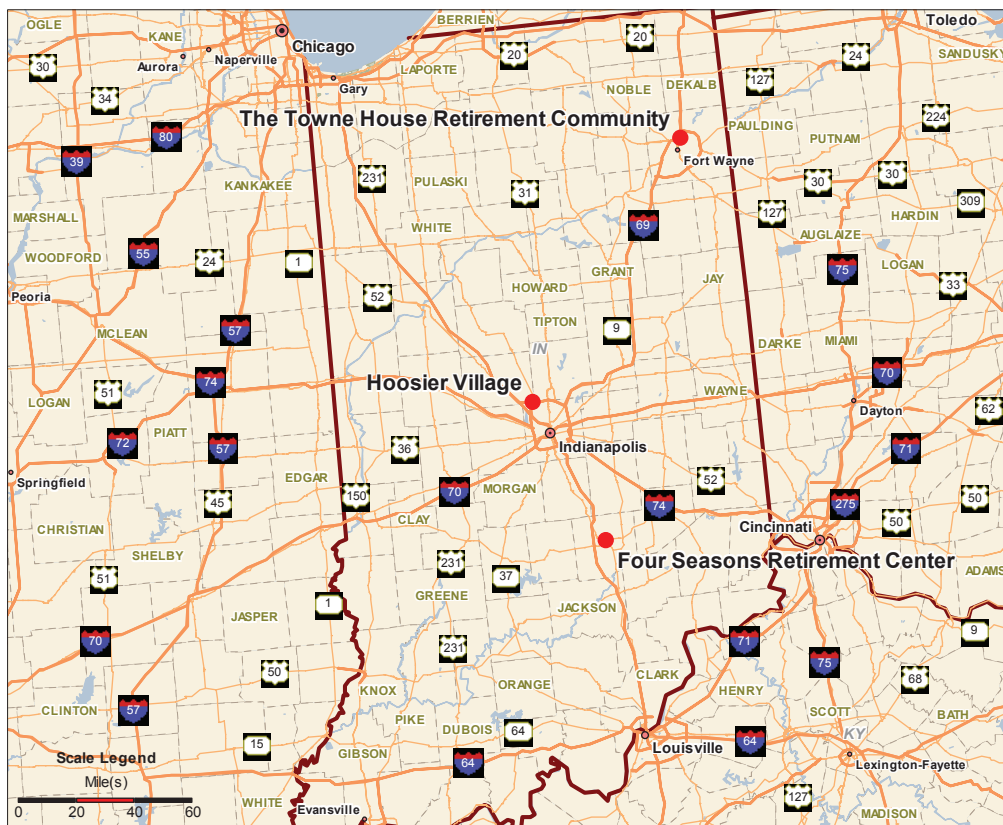
**Main Entrance of Towne House
Ft. Wayne, Indiana**



**Artist Rendering of Chapman's Crossing Homes at The Towne House
Ft. Wayne, Indiana**



**Main Entrance of Four Seasons
Columbus, Indiana**



**Baptist Homes of Indiana Main Campus Locations
Columbus, Indiana**

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APPENDICES

- APPENDIX A – Information Concerning the Obligated Group
- APPENDIX B – Audited Financial Statements
- APPENDIX C – Summary of Principal Documents
- APPENDIX D – Form of Opinion of Bond Counsel

SUMMARY STATEMENT

The information set forth in this Summary Statement is subject in all respects to more complete information set forth elsewhere in this Official Statement, which should be read in its entirety. The offering of the Series 2005 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise to use it without this entire Official Statement.

The Series 2005 Bonds

The Indiana Health and Educational Facility Financing Authority (the "Authority"), a public body corporate and politic, not an agency of the State of Indiana, proposes to issue \$47,905,000 in aggregate principal amount of its Revenue Bonds, Series 2005 (Baptist Homes of Indiana) (the "Series 2005 Bonds").

The Series 2005 Bonds will be subject to optional, mandatory and extraordinary redemption, as described in this Official Statement. A description of the Series 2005 Bonds is contained in this Official Statement under the caption **"THE SERIES 2005 BONDS."**

The Series 2005 Bonds will be issued pursuant to a Bond Trust Indenture dated as of December 1, 2005 (the "Bond Indenture"), by and between the Authority and Wells Fargo Bank, National Association, Chicago, Illinois, as bond trustee (the "Bond Trustee"). The proceeds of the Series 2005 Bonds will be loaned to Baptist Homes of Indiana, Inc. (the "Corporation") pursuant to a Loan Agreement dated as of December 1, 2005 (the "Loan Agreement"), by and between the Corporation and the Authority.

The Corporation will use the proceeds from the sale of the Series 2005 Bonds, together with certain other funds, to (i) refund the outstanding balance of the Authority's Variable Rate Demand Revenue Bonds (Baptist Homes of Indiana) Series 2000 (the "Prior Bonds"); (ii) fund a project fund to be used by the Corporation to make capital additions and improvements to its facilities (the "Project"); (iii) fund a debt service reserve fund for the Series 2005 Bonds; and (iv) pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds. See **"PLAN OF FINANCE"** and **"ESTIMATED SOURCES AND USES OF FUNDS."**

The Corporation and the Project

The Corporation and Baptist Homes Foundation of Indiana, Inc. (the "Foundation") are the initial Members of the Obligated Group (as described below). Each is an Indiana nonprofit corporation, is exempt from federal income taxation pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code, and is not a private foundation within the meaning of Section 509(a) of the Code. The Corporation intends to use proceeds from the sale of the Series 2005 Bonds to construct and equip additions to its campuses in Indianapolis and Fort Wayne, Indiana, and undertake renovations and improvements at its campuses in those locations and in Columbus, Indiana (collectively, the "Project"). The Corporation's existing land and improvements, together with the Project (collectively, the "Facilities"), are subject to the Mortgage as hereinafter described.

Further information regarding the Corporation and the Project is included in ***APPENDIX A***.

Security for the Series 2005 Bonds

The Series 2005 Bonds will be special and limited obligations of the Authority and will be secured in part by the Corporation's Master Note, Series 2005, in the principal amount of \$47,905,000 (the "Series 2005 Note").

The Series 2005 Note will be issued pursuant to a Master Trust Indenture dated as of December 1, 2005 (the "Master Indenture"), by and among the Corporation and the Foundation, as the initial members of the Obligated Group, and Wells Fargo Bank, National Association, Chicago, Illinois, as master trustee (the "Master Trustee"). The Authority will pledge and assign the Series 2005 Note and certain of its rights under the Loan Agreement to the Bond Trustee as security for the Series 2005 Bonds. The terms of the Series 2005 Note will require payments by the Corporation, the Foundation and any future member of the Obligated Group which, together with other moneys available therefor (and interest earned thereon), will be sufficient to provide for the payment of the principal of and interest on the Series 2005 Bonds.

The Series 2005 Note will entitle the Bond Trustee, as the holder thereof, to the protection of the covenants, restrictions and other obligations imposed upon the Corporation, the Foundation and any future member of the Obligated Group by the Master Indenture. Each member of the Obligated Group will be jointly and severally obligated on all Notes, including the Series 2005 Note, which are issued pursuant to the Master Indenture. All Notes issued by the Members of the Obligated Group will be equally and ratably secured by (i) three separate Mortgage, Security Agreement and Fixture Financing Statements on the hereinafter-described Mortgaged Property of the Corporation, as amended by three separate First Amendments to Mortgage (collectively, the "Mortgage") and (ii) a security interest in the Gross Revenues (as hereinafter defined) of the Obligated Group, subject in each case only to Permitted Encumbrances. See **"SECURITY FOR THE SERIES 2005 NOTE – General."**

In certain circumstances, the Members of the Obligated Group may issue Additional Notes under the Master Indenture that may be equally and ratably secured with the Series 2005 Note (collectively, the "Notes"), then Outstanding under the Master Indenture or that may be entitled to the benefit of security in addition to that securing the Notes then Outstanding under the Master Indenture, which security need not be extended to any other Notes. See **"SECURITY FOR THE SERIES 2005 NOTE – Additional Indebtedness."**

Payment of the principal of and interest on the Series 2005 Bonds will be additionally secured by moneys deposited to the credit of the Debt Service Reserve Fund established under the Bond Indenture. See **"SECURITY FOR THE SERIES 2005 BONDS"** herein as well as **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Bond Indenture – Revenues and Funds –Debt Service Reserve Fund"** in *APPENDIX C*.

Certain Covenants of the Corporation and any Future Members of the Obligated Group

For the definitions of certain words and terms used in this section, see **"SUMMARY OF PRINCIPAL DOCUMENTS"** in *APPENDIX C*.

Rate Covenant. Under the provisions of the Master Indenture, each Member covenants and agrees to operate all of its Facilities on a revenue-producing basis and to charge such fees and rates for its Facilities and services and to exercise such skill and diligence, including obtaining payment for services provided, as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will from

time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this covenant.

The Members covenant and agree that the Obligated Group Representative will calculate the Historical Debt Service Coverage Ratio of the Obligated Group for each Fiscal Year, commencing December 31, 2005.

If the Historical Debt Service Coverage Ratio of the Obligated Group is less than 1.10:1, the Master Trustee shall require the Obligated Group, at the Obligated Group's expense, to retain a Consultant within 30 days following the calculation described herein to make recommendations with respect to the rates, fees and charges of the Members and the Obligated Group's methods of operation and other factors affecting its financial condition in order to generate a Historical Debt Service Coverage Ratio of at least 1.10:1 for the following Fiscal Year.

A copy of the Consultant's report and recommendations, if any, shall be filed with each Member, the Master Trustee and each Required Information Recipient within 60 days of retaining the Consultant. Each Member shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. This covenant shall not be construed to prohibit any Member from serving indigent patients to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements hereof.

The foregoing provisions notwithstanding, if the Historical Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year does not meet the levels required above, the Master Trustee shall not be obligated to require the Obligated Group to retain a Consultant to make such recommendations if: (a) there is filed with the Master Trustee (who shall provide a copy to each Required Information Recipient) a written report addressed to them of a Consultant (which Consultant and report, including without limitation the scope, form, substance and other aspects of such report, are acceptable to the Master Trustee) which contains an opinion of such Consultant that applicable laws or regulations have prevented the Obligated Group from generating Income Available for Debt Service during such Fiscal Year sufficient to meet the requirements of this covenant, and, if requested by the Master Trustee, such report is accompanied by a concurring opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) as to any conclusions of law supporting the opinion of such Consultant; (b) the report of such Consultant indicates that the rates charged by the Obligated Group are such that, in the opinion of the Consultant, the Obligated Group has generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Historical Debt Service Coverage Ratio of the Obligated Group for such Fiscal Year was at least 1.00:1. The Obligated Group shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides to the Master Trustee (who shall provide a copy to each Related Bond Trustee) an opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way.

Notwithstanding any other provisions of the Master Indenture, failure of the Obligated Group to achieve the required Historical Debt Service Coverage Ratio for any Fiscal Year shall not constitute an event of default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each

recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law.

Notwithstanding any other provisions of the Master Indenture, in the event that any Member of the Obligated Group incurs any Additional Indebtedness for any acquisition, construction, renovation or replacement project pursuant to any other provision of the Master Indenture, the Debt Service Requirements on such Additional Indebtedness and the Revenues and Expenses relating to the project or projects financed with the proceeds of such Additional Indebtedness shall be excluded from the calculation of the Historical Debt Service Coverage Ratio of the Obligated Group for the purposes of complying with this covenant, until the first full Fiscal Year following the later of (i) the estimated completion of the acquisition, construction, renovation or replacement project being paid for with the proceeds of such Additional Indebtedness provided that such completion occurs no later than six months following the completion date for such project set forth in the Consultant's report described in (A) below, or (ii) the end of the fourth full Fiscal Year after the incurrence of such Additional Indebtedness, if the following conditions are met:

- (A) there is delivered to the Master Trustee a report or opinion of a Consultant to the effect that the Projected Debt Service Coverage Ratio for each of the first two full Fiscal Years following the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of such Additional Indebtedness, provided, however, that in the event that a Consultant shall deliver a report to the Master Trustee to the effect that state or Federal laws or regulations or administrative interpretations of such laws or regulations then in existence do not permit or by their application make it impracticable for Members to produce the required ratio, then such ratio shall be reduced to the highest practicable ratio then permitted by such laws or regulations but in no event less than 1.00:1; provided, however, that in the event a Consultant's report is not required to incur such Additional Indebtedness, the Obligated Group may deliver an Officer's Certificate to the Master Trustee in lieu of the Consultant's report described in this subparagraph (A); and
- (B) there is delivered to the Master Trustee an Officer's Certificate on the date on which Financial Statements are required to be delivered to the Master Trustee pursuant to the Master Indenture until the first Fiscal Year in which the exclusion from the calculation of the Historical Debt Service Coverage Ratio no longer applies, calculating the Historical Debt Service Coverage Ratio of the Obligated Group at the end of each Fiscal Year, and demonstrating that such Historical Debt Service Coverage Ratio is not less than 1.00:1, such Historical Debt Service Coverage Ratio to be computed without taking into account (I) the Additional Indebtedness to be incurred if (x) the interest on such Additional Indebtedness during such period is funded from proceeds thereof or other funds of the Member then on hand and available therefor and (y) no principal of such Additional Indebtedness is payable during such period, and (II) the Revenues to be derived from the project to be financed from the proceeds of such Additional Indebtedness.

See "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Rates and Charges" in *APPENDIX C*.

Liquidity Covenant. The Obligated Group covenants that it will deliver an Officer's Certificate to the Master Trustee after the end of each Fiscal Year indicating its Days Cash on Hand as of December 31 of each such Fiscal Year, commencing December 31, 2005 (the "Testing Dates"). If on any such Testing Date the Obligated Group's Days Cash on Hand is less than 150, or the Obligated Group has not achieved 180 Days Cash on Hand by the next Testing Date following a Testing Date on which the Obligated Group's Days Cash on Hand was less than 180, but at least 150, the Master Trustee shall

require the Obligated Group, at its expense, to retain a Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operating and other factors affecting its financial condition in order to increase the Days Cash on Hand to at least 180. A copy of the Consultant's report and recommendations, if any, shall be filed with each Member, the Master Trustee, the Bond Trustee and the Authority. Each Member of the Obligated Group shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Member) and permitted by law. This provision shall not be construed to prohibit the Obligated Group from serving the indigent to the extent required for any Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of individuals without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this paragraph.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group to achieve the required liquidity covenant on any Testing Date shall not constitute an event of default under the Master Indenture if (i) the Obligated Group takes all action necessary to comply with the procedures set forth in the Master Indenture for preparing a report and adopting a plan, and follows each recommendation contained in the report of the Consultant to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law, and (ii) as of the last day of the Fiscal Year in which Days Cash on Hand of the Obligated Group fell below 180 days based upon the financial statements delivered pursuant to the Master Indenture (the "Liquidity Covenant Default Date"), the Obligated Group maintains a Historical Debt Service Coverage Ratio of at least 1.00:1 for such Fiscal Year or the Days Cash on Hand of the Obligated Group as of the end of such Fiscal Year is at least 150. If, as of the Liquidity Covenant Default Date, the Historical Debt Service Coverage Ratio of the Obligated Group is less than 1.00:1 and the Days Cash on Hand of the Obligated Group is less than 150, such event shall constitute an event of default under the Master Indenture which (notwithstanding any other cure periods for defaults set forth in the Master Indenture) may be cured only upon receipt by the Obligated Group of Cash and Investments (which may not be borrowed funds) sufficient to raise the Historical Debt Service Coverage Ratio of the Obligated Group to 1.00:1 or to raise the Days Cash on Hand of the Obligated Group to 150 days within 10 days of the Liquidity Covenant Default Date. The cure for any such default shall be established in an Officer's Certificate delivered to the Master Trustee within 10 days of the Liquidity Covenant Default Date.

See **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Liquidity Covenant"** in *APPENDIX C*.

Historical Debt Service Coverage and Other Financial Ratios. The table below reflects the funds available for debt service and certain financial ratios for the Obligated Group for the years ended December 31, 2002, 2003 and 2004, and the nine-months periods ended September 30, 2004 and 2005, on a consolidated, pro forma basis. The table has been prepared by management of the Corporation. See the information under the title "**FINANCIAL INFORMATION - Historical Liquidity and Debt Service Coverage Ratio**" in *APPENDIX A*, and the audited financial statements in *APPENDIX B*.

Baptist Homes of Indiana, Inc. and Baptist Homes of Indiana Foundation, Inc.

Historical Debt Service Coverage and Other Financial Ratios

| Historical Debt Service Coverage Ratio | 9 Months Ending September 30, | | Years Ended December 31, | | |
|--|-------------------------------|--------------|--------------------------|--------------|--------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| Increase (Decrease) in Unrestricted Net Assets | \$ 4,098,975 | \$ 3,165,795 | \$ 5,489,301 | \$ 4,881,337 | \$ 799,167 |
| Plus depreciation and amortization | 2,109,062 | 2,001,407 | 2,735,489 | 2,674,589 | 2,310,892 |
| Plus interest expense | 961,827 | 969,941 | 1,096,508 | 1,285,139 | 1,078,736 |
| Plus loss on disposal of property & equipment | - | - | 150,591 | 22,057 | - |
| Plus entrance fees received, net of refunds (1) | 2,482,489 | 1,578,293 | 2,800,157 | 2,358,080 | 2,089,616 |
| Minus entrance fee amortization | (2,747,835) | (2,101,060) | (3,332,818) | (3,169,203) | (2,351,522) |
| Minus unrealized gains (losses) on investments | (150,016) | 16,780 | (1,040,512) | (1,859,225) | 468,856 |
| Net Income Available for Debt Service | \$ 6,754,502 | \$ 5,731,156 | \$ 7,898,716 | \$ 6,192,774 | \$ 4,395,745 |
| Debt Service for Long-Term Indebtedness | \$ 961,827 | \$ 969,941 | \$ 1,621,508 | \$ 1,785,139 | \$ 1,533,736 |
| Historical Debt Service Coverage Ratio | 7.02x | 5.91x | 4.87x | 3.47x | 2.83x |
| Proforma Debt Service for Long Term Indebtedness | \$ 2,406,319 | \$ 2,406,319 | \$ 3,208,425 | \$ 3,208,425 | \$ 3,208,425 |
| Proforma Historical Debt Service Coverage Ratio | 2.81x | 2.38x | 2.46x | 1.93x | 1.37x |

(1) Excludes initial entrances of \$3,575,871, \$660,000, and \$3,717,400 for December 31, 2004, 2003, and 2002. Excludes initial entrance fees of \$3,027,162 for September 30, 2004.

| Days Cash on Hand | 2005 | 2004 | 2004 | 2003 | 2002 |
|---|---------------|---------------|---------------|---------------|---------------|
| Cash and equivalents | \$ 12,891,298 | \$ 12,019,786 | \$ 10,727,001 | \$ 8,597,591 | \$ 9,515,918 |
| Short-term investments | 27,765,239 | 22,383,275 | 25,060,735 | 20,798,825 | 13,046,229 |
| Total Unrestricted Cash and Investments | \$ 40,656,537 | \$ 34,403,061 | \$ 35,787,736 | \$ 29,396,416 | \$ 22,562,147 |
| Operating Expenses | \$ 20,524,848 | \$ 19,753,626 | \$ 26,304,395 | \$ 25,624,063 | \$ 24,140,098 |
| Less Depreciation and amortization | (2,109,062) | (2,001,407) | (2,735,489) | (2,674,589) | (2,310,892) |
| Less loss on disposal of property and equipment | - | - | (150,591) | (22,057) | - |
| Total Cash Operating Expenses | \$ 18,415,786 | \$ 17,752,219 | \$ 23,418,315 | \$ 22,927,417 | \$ 21,829,206 |
| Daily Cash Operating Expenses | \$ 68,207 | \$ 65,749 | \$ 64,160 | \$ 62,815 | \$ 59,806 |
| Days Cash on Hand | 596 | 523 | 558 | 468 | 377 |

| Unrestricted Cash and Investments to Long-Term Indebtedness | 2005 | 2004 | 2004 | 2003 | 2002 |
|--|---------------|---------------|---------------|---------------|---------------|
| Cash and equivalents | \$ 12,891,293 | \$ 12,019,786 | \$ 10,727,001 | \$ 8,597,591 | \$ 9,515,918 |
| Short-term investments | 27,765,239 | 22,383,275 | 25,060,735 | 20,798,825 | 13,046,229 |
| Total Unrestricted Cash and Investments | \$ 40,656,532 | \$ 34,403,061 | \$ 35,787,736 | \$ 29,396,416 | \$ 22,562,147 |
| Long-Term Indebtedness Outstanding | \$ 27,680,000 | \$ 28,235,000 | \$ 27,680,000 | \$ 28,235,000 | \$ 28,760,000 |
| Unrestricted Cash and Investments to Long-Term Indebtedness | 1.47x | 1.22x | 1.29x | 1.04x | 0.78x |
| Proforma Unrestricted Cash and Investments (2) | \$ 33,156,532 | \$ 26,903,061 | \$ 28,287,736 | \$ 21,896,416 | \$ 15,062,147 |
| Proforma Long-Term Indebtedness Outstanding | \$ 47,905,000 | \$ 47,905,000 | \$ 47,905,000 | \$ 47,905,000 | \$ 47,905,000 |
| Proforma Unrestricted Cash and Investments to Long-Term Indebtedness | 0.69x | 0.56x | 0.59x | 0.46x | 0.31x |

(2) \$7.5 million is excluded from proforma unrestricted cash and investments because it may be transferred to an affiliate of the Corporation.

Financial Reporting and Continuing Disclosure

Financial Reporting.

(a) The Members covenant that they will keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Obligated Group in accordance with generally accepted principles of accounting consistently applied except as may be disclosed in the notes to the audited financial statements referred to in paragraph (b) below. To the extent that generally accepted accounting principles would require consolidation of certain financial information of entities which are not Members of the Obligated Group with financial information of one or more Members, consolidated financial statements prepared in accordance with generally accepted accounting principles which include information with respect to entities which are not Members of the Obligated Group may be delivered in satisfaction of the requirements of this covenant so long as: (i) supplemental information in sufficient detail to separately identify the information with respect to the Members of the Obligated Group is delivered to the Master Trustee with the audited financial statements; (ii) such supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements delivered to the Master Trustee and, in the opinion of the accountant, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole; and (iii) such supplemental information is used for the purposes hereof or for any agreement, document or certificate executed and delivered in connection or pursuant to the Master Indenture.

(b) The Obligated Group Representative will furnish or cause to be furnished to the Master Trustee, the Initial Purchaser, each Related Bond Trustee, all nationally recognized municipal securities information repositories identified by the Securities and Exchange Commission, the Authority (provided that the Authority will be provided only the items set forth in subparagraph (iii) and (iv) below unless the Authority requests other information being provided in accordance herewith), and all Bondholders who hold \$500,000 or more of any Related Bonds and request such reports in writing (which written request shall include a certification as to such ownership) (collectively, "Required Information Recipients"), the following:

- (i) Beginning December 31, 2005 as soon as practicable after it is available but in no event more than 45 days after the completion of such fiscal quarter: (A) quarterly unaudited financial statements of the Obligated Group (including a report with respect to the fourth quarter of each Fiscal Year) which shall include a combined or combining statement of revenues and expenses and statement of cash flows of the Obligated Group during such period, a combined or combining balance sheet as of the end of each such fiscal quarter, which, in each case, shall include comparisons to the annual budget of the Obligated Group provided pursuant to subsection (iv) below, and (B) a calculation of Days Cash on Hand as of the last day of such quarter and the Historical Debt Service Coverage Ratio of the Obligated Group for such quarter.
- (ii) If the Historical Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.00:1 and the Days Cash on Hand of the Obligated Group is less than 180 days for any Testing Date as provided herein, the Obligated Group will deliver the financial information and the calculations described in paragraph (i) above on a monthly basis within 45 days of the end of each month until the Historical Debt Service Coverage Ratio of the Obligated Group is at least 1.00:1 and the Days Cash on Hand of the Obligated Group is at least equal to 180 days.
- (iii) Within 150 days of the end of each Fiscal Year, an annual audited financial report of the Obligated Group prepared by a firm of certified public accountants, including a combined

and an unaudited combining balance sheet as of the end of such Fiscal Year and a combined and an unaudited combining statement of changes in fund balances for such Fiscal Year and a combined and an unaudited combining statement of revenues and expenses for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing calculations of the Obligated Group's Historical Debt Service Coverage Ratio for said Fiscal Year and of the Obligated Group's Days Cash on Hand as of the last day of such Fiscal Year and a statement that such accountants have no knowledge of any default under the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof.

(iv) On or before the date of delivery of the financial reports referred to in subsection (iii) above, an Officer's Certificate of the Obligated Group Representative (A) stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof, (B) calculating and certifying the Days Cash on Hand, and Historical Debt Service Coverage Ratio, as of the end of such fiscal period or Fiscal Year, as appropriate and (C) attaching a copy of the Obligated Group's annual operating and capital budget for the coming Fiscal Year.

(v) Copies of (A) any board approved revisions to the annual budget provided pursuant to subsection (iv) above, or (B) any correspondence to or from the Internal Revenue Service questioning or contesting the status of a Member as an organization described in Section 501(c)(3) of the Code or with respect to the tax-exempt status of the Related Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes, promptly upon receipt.

(c) The Obligated Group Representative shall furnish or cause to be furnished to the Master Trustee or any Related Bond Trustee, such additional information as the Master Trustee or any Related Bond Trustee may reasonably request concerning any Member in order to enable the Master Trustee or such Related Bond Trustee to determine whether the covenants, terms and provisions of the Master Indenture have been complied with by the Members and for that purpose all pertinent books, documents and vouchers relating to the business, affairs and Property (other than patient, donor and personnel records) of the Members shall, to the extent permitted by law, at all times during regular business hours be open to the inspection of such accountant or other agent (who may make copies of all or any part thereof) as shall from time to time be designated by the Master Trustee or such Related Bond Trustee.

(d) The Members also agree that, within 10 days after its receipt thereof, the Obligated Group Representative will file with the Master Trustee and each Required Information Recipient a copy of each Consultant's report or counsel's opinion required to be prepared under the terms of the Master Indenture. The Master Trustee shall, on behalf of the Obligated Group Representative, provide copies of such items to the Required Information Recipients.

(e) The Obligated Group Representative shall give prompt written notice of a change of accountants by the Obligated Group to the Master Trustee and each Related Bond Trustee. The notice shall state (i) the effective date of such change; (ii) whether there were any unresolved disagreements with the former accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which the accountants claimed would have caused them to refer the disagreement in a report on the disputed matter, if it was not resolved to their satisfaction; and (iii) such additional information relating thereto as such Related Bond Trustee or the Master Trustee may reasonably request.

(f) Without limiting the foregoing, each Member will permit, upon reasonable notice, the Master Trustee or any such Related Bond Trustee (or such persons as they may designate) to visit and inspect, at the expense of such Person, its Property and to discuss the affairs, finances and accounts of the Obligated Group with its officers and independent accountants, all at such reasonable times and locations and as often as the Master Trustee or such Related Bond Trustee may reasonably desire.

(g) The Obligated Group Representative may designate a different Fiscal Year for the Members of the Obligated Group by delivering a notice to the Master Trustee designating the first and last day of such new Fiscal Year and whether or not there will be any interim fiscal period (the "Interim Period") of a duration of greater than or less than 12 months preceding such new Fiscal Year. The Members covenant that they will furnish to the Master Trustee and each Related Bond Trustee, as soon as practicable after they are available, but in no event more than 150 days after the last day of such Interim Period, a financial report for such Interim Period certified by a firm of independent certified public accountants selected by the Obligated Group Representative covering the operations of the Obligated Group for such Interim Period and containing a combined balance sheet as of the end of such Interim Period and a combined statement of changes in fund balances and changes in financial position for such Interim Period and a combined statement of revenues and expenses for such Interim Period, showing in each case in comparative form the financial figures for the comparable period in the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing a calculation of the Obligated Group's Historical Debt Service Coverage Ratio for the Interim Period and a statement that such accountants have obtained no knowledge of any default by any Member in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

See **"FINANCIAL REPORTING AND CONTINUING DISCLOSURE – Financial Reporting"** herein for further information.

Continuing Disclosure. Given the sources of repayment for the Series 2005 Bonds and the Authority's limited obligation in respect thereof, the Authority has determined that its financial and operating data is not material to a decision to purchase, hold or sell the Series 2005 Bonds. Consequently, the Authority will not provide any such information.

The Corporation has agreed to make certain financial information with respect to it and the Obligated Group and certain operating data with respect to it available to holders of the Series 2005 Bonds through information repositories during the time that the Series 2005 Bonds are outstanding. The Corporation is solely responsible for providing such disclosure. The Authority shall have no responsibility or liability to the holders of the Series 2005 Bonds or any other person for the making, monitoring or content of such disclosures. In addition, the Corporation will provide the Dissemination Agent, as defined in the Continuing Disclosure Agreement, a copy of any information provided to Bondholders pursuant to the Master Indenture described above. See **"FINANCIAL REPORTING AND CONTINUING DISCLOSURE – Continuing Disclosure"** herein for further information.

Risk Factors

AN INVESTMENT IN THE SERIES 2005 BONDS INVOLVES A CERTAIN DEGREE OF RISK INCLUDING THOSE SET FORTH UNDER THE HEADING **"RISK FACTORS"** HEREIN. A PROSPECTIVE SERIES 2005 BONDHOLDER IS ADVISED TO READ **"SECURITY FOR THE SERIES 2005 BONDS," "SECURITY FOR THE SERIES 2005 NOTE"** and **"RISK FACTORS"** FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2005 BONDS. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement.

REGARDING USE OF THIS OFFICIAL STATEMENT

IN CONNECTION WITH THE OFFERING OF THE SERIES 2005 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2005 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, sales representative or other person has been authorized by the Authority, the Corporation or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein relating to the Authority under the headings "**THE AUTHORITY**" and "**LITIGATION – The Authority**" has been obtained from the Authority. All other information herein has been obtained by the Underwriter from the Corporation and other sources deemed by the Underwriter to be reliable, and is not to be construed as a representation by the Authority or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

Neither the Authority, its counsel, nor any of its members, agents, employees or representatives have reviewed this Official Statement or investigated the statements or representations contained herein, except for those statements relating to the Authority set forth under the captions "**THE AUTHORITY**" and "**LITIGATION – The Authority.**" Except with respect to the information contained under such captions, neither the Authority, its counsel, nor any of its members, agents, employees or representatives make any representation as to the completeness, sufficiency and truthfulness of the statements set forth in this Official Statement. Members of the Authority and any other person executing the Series 2005 Bonds are not subject to personal liability by reason of the issuance of the Series 2005 Bonds.

THE SERIES 2005 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE BOND INDENTURE AND THE MASTER INDENTURE HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2005 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH SERIES 2005 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2005 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in *APPENDIX A* herein.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CORPORATION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

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OFFICIAL STATEMENT

\$47,905,000
INDIANA HEALTH AND EDUCATIONAL
FACILITY FINANCING AUTHORITY
REVENUE BONDS, SERIES 2005
(BAPTIST HOMES OF INDIANA)

INTRODUCTION

Purpose of this Official Statement

The purpose of this Official Statement, including the cover page, the summary statement and the appendices, is to set forth certain information in connection with the offering by the Indiana Health and Educational Facility Financing Authority (the "Authority") of \$47,905,000 Revenue Bonds, Series 2005 (Baptist Homes of Indiana) (the "Series 2005 Bonds").

Certain capitalized terms used in this Official Statement and not otherwise defined herein are defined in *APPENDIX C*. The Official Statement speaks only as of its date, and the information contained herein is subject to change.

The Authority

The Authority is a public body corporate and politic, not an agency of the State of Indiana, but an independent public body exercising essential public functions. The Authority was created under the Indiana Code 5-1-16, as amended (the "Act"). For further information concerning the Authority, see the information under the caption "**THE AUTHORITY.**"

The Corporation and the Foundation

The Corporation and the Foundation are the initial Members of the Obligated Group created under the Master Indenture (as defined below). Each is an Indiana nonprofit corporation exempt from federal income taxation pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code and is not a private foundation within the meaning of Section 509(a) of the Code. The Corporation is planning to make certain additions, improvements and renovations to its existing facilities (collectively, the "Project").

Further information regarding the Corporation, the Foundation and the Project is included in *APPENDIX A*. See also "**PLAN OF FINANCE - The Project**" herein.

Purpose of the Series 2005 Bonds

The Corporation will use the proceeds from the sale of the Series 2005 Bonds, together with certain other funds, to (i) refund the outstanding balance of the Authority's Variable Rate Demand Revenue Bonds (Baptist Homes of Indiana) Series 2000 (the "Prior Bonds"); (ii) fund a project fund to be used by the Corporation to pay the costs of the Project; (iii) fund a debt service reserve fund for the Series 2005 Bonds; and (iv) pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds. See "**PLAN OF FINANCE**" and "**ESTIMATED SOURCES AND USES OF FUNDS.**"

Security for the Series 2005 Bonds

The Series 2005 Bonds will be issued pursuant to a Bond Trust Indenture, dated as of December 1, 2005 (the "Bond Indenture"), by and between the Authority and Wells Fargo Bank, National Association, Chicago, Illinois, as bond trustee (the "Bond Trustee"). The proceeds of the Series 2005 Bonds will be loaned to the Corporation pursuant to a Loan Agreement dated as of December 1, 2005 (the "Loan Agreement"), by and between the Corporation and the Authority.

The Series 2005 Bonds will be special and limited obligations of the Authority and will be secured by the Corporation's Master Note, Series 2005, in the principal amount of \$47,905,000 (the "Series 2005 Note"), issued pursuant to a Master Trust Indenture dated as of December 1, 2005 (the "Master Indenture"), by and among the Corporation and the Foundation, as the initial members of the Obligated Group, and Wells Fargo Bank, National Association, Chicago, Illinois, as master trustee (the "Master Trustee").

Payment of the principal of and interest on the Series 2005 Bonds will be additionally secured by moneys deposited to the credit of the Debt Service Reserve Fund established under the Bond Indenture. See **"SECURITY FOR THE SERIES 2005 BONDS"** herein as well as **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Bond Indenture – Revenues and Funds –Debt Service Reserve Fund"** in *APPENDIX C* herein.

Security for the Note

The Series 2005 Note will entitle the Bond Trustee, as holder thereof, to the protection of the covenants, restrictions and other obligations imposed upon the Obligated Group by the Master Indenture. The Corporation will be obligated on all Notes, including the Series 2005 Note and any Additional Notes which are issued pursuant to the Master Indenture. Notes issued by the Corporation will be equally and ratably secured by (i) a mortgage on the Facilities pursuant to three separate Mortgage, Security Agreement and Fixture Financing Statements dated November 30, 2000, as amended by three separate First Amendments to Mortgage dated as of December 1, 2005 (collectively, the "Mortgage") from the Corporation, as mortgagor, to the Master Trustee, as mortgagee, and (ii) a security interest in the Gross Revenues of the Obligated Group and any other future Member of the Obligated Group, subject in each case only to Permitted Encumbrances. **"SECURITY FOR THE SERIES 2005 NOTE – General."**

Additional Notes and Additional Indebtedness

The Master Indenture permits the Obligated Group to issue Additional Indebtedness (including Guaranties) which may, but need not, be evidenced or secured by an Additional Note issued under the Master Indenture. In certain circumstances, the Obligated Group may issue Additional Notes under the Master Indenture to the Authority or to persons other than the Authority that will not be pledged under the Bond Indenture but will be equally and ratably (except as described herein) secured with the Series 2005 Note. Under the terms of the Master Indenture, Additional Notes may also be entitled to the benefit of security in addition to that securing the Notes Outstanding under the Master Indenture (including the Series 2005 Note). See **"SECURITY FOR THE SERIES 2005 NOTE – Additional Indebtedness."**

Bondholders' Risks

There are risks associated with the purchase of the Series 2005 Bonds. See the information under the caption **"RISK FACTORS"** herein for a discussion of some of those risks.

PLAN OF FINANCE

The Corporation will use the proceeds from the sale of the Series 2005 Bonds, together with certain other funds, to (i) refund the outstanding balance of the Authority's Variable Rate Demand Revenue Bonds (Baptist Homes of Indiana) Series 2000 (the "Prior Bonds"); (ii) fund a project fund to be used by the Corporation to pay the costs of the Project; (iii) fund a debt service reserve fund for the Series 2005 Bonds; and (iv) pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds. See **"ESTIMATED SOURCES AND USES OF FUNDS."**

The Project

The Corporation has begun a program of additions and improvements involving each of its three campuses. Living units are being added at its Indianapolis and Fort Wayne campuses, with construction expected to be completed in 2007. In addition, the Corporation is renovating the health center at its Columbus facility and making numerous capital improvements at all facilities over the next three years. See **"The Projects"** in *APPENDIX A*.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds of the Series 2005 Bonds are as follows:

SOURCES OF FUNDS

| | |
|--|---------------------|
| Series 2005 Bonds | \$47,905,000 |
| Original Issue Premium | 733,627 |
| Prior Bonds Trustee Held Funds | 3,073,009 |
| Interest Earnings on Trustee Held Funds ⁽¹⁾ | 814,687 |
| Total Sources of Funds | <u>\$52,526,323</u> |

USES OF FUNDS

| | |
|--|---------------------|
| Construction and other costs (Project Fund) ⁽¹⁾ | \$20,869,634 |
| Refunding the Prior Bonds | 27,724,963 |
| Debt Service Reserve Fund | 3,208,425 |
| Costs of Issuance ⁽²⁾ | 723,301 |
| Total Uses of Funds | <u>\$52,526,323</u> |

¹ The Project Fund is assumed to earn interest at an annual rate of 4.50%.

² Includes Underwriter's discount, legal, accounting, administrative and miscellaneous fees and expenses.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required for the payment of principal of and interest on the Series 2005 Bonds at maturity or by mandatory sinking fund redemption and for the payment of interest on the Series 2005 Bonds for each Bond Year ending November 15.

| Bond Year Ending <u>November 15</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service</u> |
|--|---------------------|------------------------|-------------------------------|
| 2006 | \$ 640,000 | \$ 2,243,632.50 | \$ 2,883,632.50 |
| 2007 | 740,000 | 2,460,925.00 | 3,200,925.00 |
| 2008 | 780,000 | 2,423,925.00 | 3,203,925.00 |
| 2009 | 815,000 | 2,384,925.00 | 3,199,925.00 |
| 2010 | 860,000 | 2,344,175.00 | 3,204,175.00 |
| 2011 | 905,000 | 2,301,175.00 | 3,206,175.00 |
| 2012 | 950,000 | 2,255,925.00 | 3,205,925.00 |
| 2013 | 1,000,000 | 2,208,425.00 | 3,208,425.00 |
| 2014 | 1,050,000 | 2,158,425.00 | 3,208,425.00 |
| 2015 | 1,095,000 | 2,105,925.00 | 3,200,925.00 |
| 2016 | 1,150,000 | 2,051,175.00 | 3,201,175.00 |
| 2017 | 1,210,000 | 1,990,800.00 | 3,200,800.00 |
| 2018 | 1,275,000 | 1,927,275.00 | 3,202,275.00 |
| 2019 | 1,340,000 | 1,860,337.50 | 3,200,337.50 |
| 2020 | 1,410,000 | 1,789,987.50 | 3,199,987.50 |
| 2021 | 1,485,000 | 1,715,962.50 | 3,200,962.50 |
| 2022 | 1,565,000 | 1,638,000.00 | 3,203,000.00 |
| 2023 | 1,645,000 | 1,555,837.50 | 3,200,837.50 |
| 2024 | 1,735,000 | 1,469,475.00 | 3,204,475.00 |
| 2025 | 1,825,000 | 1,378,387.50 | 3,203,387.50 |
| 2026 | 1,920,000 | 1,282,575.00 | 3,202,575.00 |
| 2027 | 2,020,000 | 1,181,775.00 | 3,201,775.00 |
| 2028 | 2,125,000 | 1,075,725.00 | 3,200,725.00 |
| 2029 | 2,235,000 | 964,162.50 | 3,199,162.50 |
| 2030 | 2,355,000 | 846,825.00 | 3,201,825.00 |
| 2031 | 2,480,000 | 723,187.50 | 3,203,187.50 |
| 2032 | 2,610,000 | 592,987.50 | 3,202,987.50 |
| 2033 | 2,750,000 | 455,962.50 | 3,205,962.50 |
| 2034 | 2,895,000 | 311,587.50 | 3,206,587.50 |
| 2035 | <u>3,040,000</u> | <u>159,600.00</u> | <u>3,199,600.00</u> |
| Total | <u>\$47,905,000</u> | <u>\$47,859,082.50</u> | <u>\$95,764,082.50</u> |

THE SERIES 2005 BONDS

The Series 2005 Bonds will be issued pursuant to the Bond Indenture and the proceeds of the Series 2005 Bonds will be loaned to the Corporation pursuant to the Loan Agreement. Contemporaneously with the issuance of the Series 2005 Bonds and to secure repayment of the loan made by the Authority to the Corporation under the Loan Agreement, the Corporation will issue and deliver to the Authority the Series 2005 Note. See also **"REDEMPTION OF THE SERIES 2005 BONDS"** herein.

The Series 2005 Bonds

The Series 2005 Bonds will be issued only in fully registered form in denominations of \$5,000 or any integral multiple thereof ("Authorized Denominations"). The Series 2005 Bonds will bear interest (based on a 360-day year of twelve 30-day months) at the respective rates per annum and will mature, subject to earlier redemption, in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Series 2005 Bonds will bear interest from December 1, 2005, payable on May 15 and November 15 (the "Interest Payment Dates") of each year, commencing May 15, 2006. The Series 2005 Bonds, as initially issued, will be dated the date of their initial issuance and delivery. Except as described in the next sentence, subsequently issued Series 2005 Bonds will be dated as of the later of their date of delivery or the most recent preceding Interest Payment Date to which interest has been paid thereon. Series 2005 Bonds issued on an Interest Payment Date to which interest has been paid will be dated as of such date.

So long as Cede & Co. is the registered owner, the Bond Trustee will pay such principal of and redemption price, if any, and interest on the Series 2005 Bonds to DTC, which will remit such principal, redemption price, if any, and interest to the Beneficial Owners (as hereinafter defined) of the Series 2005 Bonds, as described under the caption **"BOOK-ENTRY SYSTEM"** herein. The Series 2005 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository (the "Securities Depository") for the Series 2005 Bonds. Individual purchases of interests in the Series 2005 Bonds will be made in book-entry form only, in Authorized Denominations. Purchasers of such interests will not receive certificates representing their interest in the Series 2005 Bonds. For a description of the method of payment of principal, premium, if any, and interest on the Series 2005 Bonds and matters pertaining to transfers and exchanges while in the book-entry only system, see the information herein under the heading **"BOOK-ENTRY SYSTEM."**

REDEMPTION OF THE SERIES 2005 BONDS

Optional Redemption. Outstanding Series 2005 Bonds maturing after November 15, 2016 are subject to redemption prior to maturity on or after November 15, 2015 at the option of the Authority upon direction of the Corporation if the Corporation exercises its option to prepay the Series 2005 Note in an amount sufficient to redeem such Series 2005 Bonds out of amounts prepaid on the Series 2005 Note at a redemption price equal to 100% of the Series 2005 Bonds to be redeemed plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2005 Bonds maturing on November 15, 2012, 2025, and 2035 (the "Term Bonds") are also subject to mandatory Bond Sinking Fund redemption at a redemption price equal to 100% of the principal amount thereof and accrued interest to the redemption date, as follows: As and for a sinking fund for the redemption of Term Bonds, the Authority shall cause to be deposited into the Principal Account of the Bond Fund a sum that is sufficient to redeem on November 15 of the applicable years (after credit as provided below) the following principal amounts of Term Bonds of the applicable maturity, plus accrued interest to the redemption date:

Term Bonds
maturing November 15, 2012

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2011 | \$905,000 |
| 2012* | 950,000 |

Term Bonds
maturing November 15, 2025

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2016 | \$1,150,000 |
| 2017 | 1,210,000 |
| 2018 | 1,275,000 |
| 2019 | 1,340,000 |
| 2020 | 1,410,000 |
| 2021 | 1,485,000 |
| 2022 | 1,565,000 |
| 2023 | 1,645,000 |
| 2024 | 1,735,000 |
| 2025* | 1,825,000 |

Term Bonds
maturing November 15, 2035

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2026 | \$1,920,000 |
| 2027 | 2,020,000 |
| 2028 | 2,125,000 |
| 2029 | 2,235,000 |
| 2030 | 2,355,000 |
| 2031 | 2,480,000 |
| 2032 | 2,610,000 |
| 2033 | 2,750,000 |
| 2034 | 2,895,000 |
| 2035* | 3,040,000 |

* Maturity

On or before the thirtieth day prior to each sinking fund payment date, the Bond Trustee shall proceed to select for redemption (by lot in such manner as the Bond Trustee may determine) from all Term Bonds Outstanding of the applicable maturity, a principal amount of such Term Bonds equal to the aggregate principal amount of such Term Bonds redeemable with the required sinking fund payment, and shall call such Term Bonds or portions thereof in Authorized Denominations for redemption from the sinking fund on the next November 15, and give notice of such call. At the option of the Corporation, to be exercised by delivery of a written certificate to the Bond Trustee on or before the forty-fifth day next preceding any sinking fund redemption date, it may (i) deliver to the Bond Trustee for cancellation Term Bonds or portions thereof of the applicable maturity, in an aggregate principal amount desired by the Corporation or (ii) specify a principal amount of Term Bonds or portions thereof of the applicable maturity, which prior to said date have been redeemed (otherwise than through the operation of the sinking fund) and canceled by the Bond Trustee at the request of the Authority and not theretofore applied as a credit against any sinking fund redemption obligation. Each such Term Bond or portion thereof so delivered or previously redeemed shall be credited by the Bond Trustee at 100% of the principal amount thereof against the obligation of the Authority to redeem Term Bonds on such sinking fund redemption date. Any excess shall be credited against the next sinking fund redemption obligation to redeem Term Bonds of the applicable maturity. In the event that the Corporation shall avail itself of the provisions of clause (i) of the second sentence of this paragraph, the certificate required by the second sentence of this paragraph shall be accompanied by the Term Bonds or portions thereof to be canceled.

Extraordinary Optional Redemption. The Series 2005 Bonds shall be subject to optional redemption by the Authority at the direction of the Corporation prior to their scheduled maturities, in whole or in part at a redemption price equal to the principal amount thereof plus accrued interest from the most recent Interest Payment Date to the redemption date on any date following the damage or destruction to, or condemnation of, any property, plant, and equipment of the Obligated Group or any future Member of the Obligated Group, only to the extent that the net proceeds of insurance or condemnation award exceed \$500,000, and the Corporation has determined not to use such net proceeds or award to repair, rebuild or replace such property, plant, and equipment.

Selection for Redemption. In the event that less than all of the outstanding Series 2005 Bonds are to be redeemed as provided in the Bond Indenture, the Corporation may select the particular maturities to be redeemed. If less than all Series 2005 Bonds or portions thereof of a single maturity are to be redeemed, they shall be selected by the Securities Depository by lot or in such other equitable manner as the Bond Trustee shall deem appropriate.

If a Series 2005 Bond is of a denomination larger than the minimum Authorized Denomination, a portion of such Series 2005 Bond may be redeemed, but Series 2005 Bonds shall be redeemed only in the principal amount of an Authorized Denomination and no Series 2005 Bond may be redeemed in part if the principal amount to be outstanding following such partial redemption is not an Authorized Denomination.

Notice of Redemption. Series 2005 Bonds shall be called for redemption by the Bond Trustee as provided in the Bond Indenture upon receipt by the Bond Trustee at least 45 days prior to the redemption date (or such shorter period as is acceptable to the Bond Trustee) of a certificate of the Corporation specifying the principal amount of Series 2005 Bonds to be called for redemption, the applicable redemption price or prices and the provision or provisions of the Bond Indenture pursuant to which such Series 2005 Bonds are to be called for redemption. The provisions of the preceding sentence shall not apply to the redemption of Series 2005 Bonds pursuant to the sinking fund provided in the Bond Indenture, and such Series 2005 Bonds shall be called for redemption by the Bond Trustee without the necessity of any action by the Corporation or the Authority. In case of every redemption, the Bond Trustee shall cause notice of such redemption to be given by mailing by first-class mail, postage prepaid, a copy of the redemption notice to the owners of the Series 2005 Bonds designated for redemption in whole or in part, at their addresses as the same shall last appear upon the registration books, in each case not more than 60 nor less than 30 days prior to the redemption date. In addition, notice of redemption shall be sent by first class or registered mail, return receipt requested, by facsimile or by overnight delivery service (1) contemporaneously with such mailing: (A) to any owner of \$1,000,000 or more in principal amount of Series 2005 Bonds and (B) to at least two or more information services of national recognition that disseminate redemption information with respect to municipal bonds; and (2) to any securities depository registered as such pursuant to the Securities Exchange Act of 1934, as amended, that is an owner of Series 2005 Bonds to be redeemed so that such notice is received at least two days prior to such mailing date. An additional notice of redemption shall be given by certified mail, postage prepaid, mailed not less than 60 nor more than 90 days after the redemption date to any owner of Series 2005 Bonds selected for redemption that has not surrendered the Series 2005 Bonds called for redemption, at the address as the same shall last appear upon the registration books. Upon request of the Corporation, the Bond Trustee may issue conditional notices of redemption, except with respect to mandatory sinking fund redemptions.

Failure to give any such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of such Series 2005 Bonds.

Series 2005 Bonds Due and Payable on Redemption Date; Interest Ceases to Accrue. On the redemption date specified in the notice of redemption, an amount of money sufficient to redeem all Series 2005 Bonds called for redemption at the appropriate redemption price, including accrued interest to the date fixed for redemption, shall be deposited with the Bond Trustee. On the redemption date the principal amount of each Series 2005 Bond to be redeemed, together with the accrued interest thereon to such date and redemption premium, if any, shall become due and payable; and from and after such date, notice having been given and deposit having been made in accordance with the provisions of the Bond Indenture, then, notwithstanding that any Series 2005 Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any such Series 2005 Bonds. From and after such date of redemption (such notice having been given and such deposit having been made), the Series 2005 Bonds to be redeemed shall not be deemed to be outstanding under the Bond Indenture, and the Authority shall be under no further liability in respect thereof.

Cancellation. All Series 2005 Bonds which have been redeemed shall be cancelled by the Bond Trustee and retained as provided in the Bond Indenture.

Partial Redemption of Fully Registered Bonds. Upon surrender of any fully registered Series 2005 Bond for redemption in part only, the Authority shall execute and the Bond Trustee shall authenticate and deliver to the owner thereof, at the expense of the Corporation, a new Bond or Bonds of the same Series and of the same maturity of Authorized Denominations in an aggregate principal amount equal to the unredeemed portion of the Series 2005 Bond surrendered.

SECURITY FOR THE SERIES 2005 BONDS

The information under this heading describes certain security applicable to the Series 2005 Bonds only. For a description of the certain security applicable to all of the Series 2005 Bonds pursuant to the Master Indenture and the Mortgage, see **"SECURITY FOR THE SERIES 2005 NOTE"** herein.

The Series 2005 Bonds will be limited obligations of the Authority and will be payable solely from (i) payments or prepayments on the Series 2005 Note, as applicable; (ii) payments or prepayments made under the Loan Agreement (other than payments with respect to Unassigned Rights); (iii) monies and investments held by the Bond Trustee under, and to the extent provided in, the Bond Indenture; and (iv) in certain circumstances, proceeds from insurance and condemnation awards or proceeds of sales made under the threat of condemnation. Certain investment earnings on monies held by the Bond Trustee may be transferred to a Rebate Fund established pursuant to the Bond Indenture. Amounts held in such Rebate Fund will not be part of the "trust estate" pledged to secure the Series 2005 Bonds, and consequently will not be available to make payments on the Series 2005 Bonds.

The Loan Agreement will provide that the Corporation shall make designated payments to the Bond Trustee in amounts sufficient to pay the principal of, premium, if any, and interest on the Series 2005 Bonds when due. The Corporation's obligation to make payments on the Series 2005 Note shall be satisfied to the extent payments are made by the Corporation under the Loan Agreement. The Loan Agreement will also impose certain restrictions on the actions of the Corporation for the benefit of the Authority and the owners of the Series 2005 Bonds. See **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Loan Agreement"** in *APPENDIX C*.

The rights of the Authority in and to the Series 2005 Note and the amounts payable thereon and the amounts payable to the Authority under the Loan Agreement (other than payments with respect to Unassigned Rights) will be assigned to the Bond Trustee under the Bond Indenture to provide for and to secure the payment of principal of, premium, if any, and interest on the Series 2005 Bonds. The Corporation agrees under the Loan Agreement to make payments on the Series 2005 Note pledged under the Bond Indenture directly to the Bond Trustee. See **"SECURITY FOR THE SERIES 2005 NOTE – General"** below.

Pursuant to the Bond Indenture, a Debt Service Reserve Fund will be established and held by the Bond Trustee for the benefit of the Series 2005 Bonds (the "Debt Service Reserve Fund"). The Debt Service Reserve Fund must be maintained in an amount equal to the least of (a) the Maximum Annual Debt Service on all Bonds then Outstanding, (b) ten percent (10%) of the stated principal amount of all Bonds then Outstanding, or (c) 125% of the average annual debt service on all Bonds then Outstanding (the "Reserve Requirement"). At the time of issuance of the Series 2005 Bonds, approximately \$3,208,425 will be deposited into the Debt Service Reserve Fund. Monies in the Debt Service Reserve Fund will be maintained in an amount equal to the Reserve Requirement. Monies on deposit in the Debt Service Reserve Fund will be used by the Bond Trustee whenever, and to the extent that, monies on deposit in the Bond Fund are insufficient for the purpose of paying interest on or principal of the Series 2005 Bonds as the same becomes due (either on stated interest payment dates or on mandatory sinking fund redemption dates). Money on deposit in the Debt Service Reserve Fund shall be invested in Qualified Investments. Qualified Investments deposited in the Debt Service Reserve Fund shall be valued

on December 31 of each year on the basis of fair market value (which valuation shall take into account any accrued and unpaid interest).

If, at any time, the amount on deposit in the Debt Service Reserve Fund is less than 100% of the Reserve Requirement as a result of the Debt Service Reserve Fund having been drawn upon as provided in the Bond Indenture, the Loan Agreement requires the Corporation to restore the amount on deposit in the Debt Service Reserve Fund to an amount equal to the Reserve Requirement in not more than 12 substantially equal monthly installments beginning with the first day of the seventh month after the month in which such draw occurred. If, on any Valuation Date, the amount on deposit in the Debt Service Reserve Fund is less than 90% of the Reserve Requirement as a result of a decline in the market value of the investments in the Debt Service Reserve Fund, the Loan Agreement requires the Corporation to deposit in the Debt Service Reserve Fund the amount necessary to restore the amount on deposit in the Debt Service Reserve Fund to equal the Reserve Requirement within not more than 120 days following the date the Corporation receives notice of such deficiency. For more information concerning the Debt Service Reserve Fund, see **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Bond Indenture – Revenues and Funds –Debt Service Reserve Fund"** in *APPENDIX C*.

All or any portion of the Series 2005 Bonds may be advance refunded through the deposit in escrow of cash or Government Obligations for the benefit of the owners of such refunded Series 2005 Bonds. See **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Bond Indenture – Discharge of the Bond Indenture"** in *APPENDIX C*.

See also **"SECURITY FOR THE SERIES 2005 NOTES"** for information about additional Security for the Series 2005 Bonds.

BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as the depository for the Series 2005 Bonds. The Series 2005 Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. The ownership of one fully-registered Series 2005 Bond for each maturity, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American

Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2005 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2005 Bonds, except in the event that use of the book-entry system for the Series 2005 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2005 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2005 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2005 bond documents. For example, Beneficial Owners of Series 2005 Bonds may wish to ascertain that the nominee holding the Series 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption and tender notices shall be sent to DTC. If less than all of the Series 2005 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Authority or to the Corporation, as the case may be, as soon as possible after the Record Date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Series 2005 Bonds are credited on the Record Date (identified in a listing attached to the "Omnibus Proxy").

Payments of principal, interest, redemption prices and purchase prices, respectively, on the Series 2005 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee or the Authority or the Corporation, as the case may be, on payable date in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Authority or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, redemption prices and purchase prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee as well as the Authority or Corporation, as the case may be. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2005 Bonds at any time by giving reasonable notice to the Authority or the Corporation and the Bond Trustee, as applicable. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2005 Bond certificates are required to be printed and delivered.

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE CORPORATION OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the Series 2005 Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority, the Corporation and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2005 Bonds for all purposes, including payments, notices and voting.

The Bond Trustee and the Authority at the direction and expense of the Corporation, with respect to the Series 2005 Bonds may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). Once the Authority has requested that holders withdraw securities from DTC, DTC will notify its Participants of such request and such Participants may utilize DTC's withdrawal process to withdraw their Series 2005 Bonds from DTC. In the event a Participant utilizes DTC's withdrawal process, Series 2005 Bond certificates will be printed and delivered.

Under the Bond Indenture, payments made by the Bond Trustee to DTC or its nominee will satisfy the Authority's obligations under the Bond Indenture and the Corporation's obligations under the Loan Agreement, to the extent of the payments so made.

Neither the Authority, the Underwriter, the Corporation nor the Bond Trustee will have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant with respect to any beneficial ownership interest in any Series 2005 Bond, (ii) the delivery to any DTC Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any notice with respect to any Series 2005 Bond including, without limitation, any notice of redemption, tender, purchase or any event which would or could give rise to a tender or purchase right or option with respect to any Series 2005 Bond, (iii) the payment of any DTC Participant or Indirect Participant or any other Person, other than an owner, as

shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any Series 2005 Bond or (iv) any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry only system described above, the Authority and the Corporation, as applicable, and the Bond Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Series 2005 Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Series 2005 Bonds, (ii) giving notices of redemption and other matters with respect to the Series 2005 Bonds, (iii) registering transfers with respect to the Series 2005 Bonds and (iv) the selection of Series 2005 Bonds for redemption.

SECURITY FOR THE SERIES 2005 NOTE

General

The Corporation's obligations under the Loan Agreement will be secured by the Series 2005 Note, which will be issued and secured under the Master Indenture. The Series 2005 Note will entitle the Bond Trustee, as the holder of a Series 2005 Note, to the protection and benefit of the covenants, restrictions and other obligations imposed on the Obligated Group by the Master Indenture.

The Master Indenture provides that payments on the Series 2005 Note and any Additional Notes issued under the Master Indenture will be the obligations of the Corporation, the Foundation and any future Members of the Obligated Group. The accounts of the Corporation, the Foundation and any future Members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the issuance of Additional Indebtedness) are satisfied. See **"RISK FACTORS – Certain Matters Relating to Enforceability of the Master Indenture."**

It is anticipated that the Foundation may withdraw from the Obligated Group within the next three years. Withdrawal from the Obligated Group may occur only upon compliance with certain requirements of the Master Indenture. See **"SUMMARY OF PRINCIPAL DOCUMENTS - Summary of Certain Provisions of the Master Indenture - Withdrawal from the Obligated Group"** in *APPENDIX C*.

The Notes, including the Series 2005 Note, will be secured by the Mortgage on the Mortgaged Property described below. The Mortgaged Property will include the Facilities of the Corporation described in Appendix A and any and all other property of every kind and nature owned by the Corporation conveyed, pledged, assigned or transferred as additional security to the Master Trustee pursuant to the Mortgage (collectively, the "Mortgaged Property"), subject only to Permitted Encumbrances. The Mortgaged Property includes the Corporation's interest in the Project. For a summary of certain provisions of the Mortgage, see **"SUMMARY OF PRINCIPAL DOCUMENTS - Summary of Certain Provisions of the Mortgage "** in *APPENDIX C*.

The Corporation will also deliver a mortgagee title insurance policy for the real property, with the Master Trustee being the named insured. The title policy will be for an aggregate amount at least equal to the initial aggregate principal amount of the Series 2005 Bonds.

The Notes, including the Series 2005 Note, will also be secured by a security interest in the Gross Revenues of the Obligated Group, subject only to Permitted Encumbrances. See **"SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Certain Terms – Gross Revenues"** in *APPENDIX C*.

Additional Indebtedness

The Master Indenture permits the Obligated Group to incur Additional Indebtedness (including Guaranties) which may, but need not, be evidenced or secured by an Additional Note issued under the Master Indenture. Under certain conditions specified therein, the Master Indenture will permit the Members of the Obligated Group to issue Additional Notes that will not be pledged under the Bond Indenture, but will be equally and ratably secured by the Master Indenture with the Series 2005 Note. In addition, the Master Indenture will permit such Additional Notes to be secured by security (including Liens on the Property, including life care facilities, of the Members of the Obligated Group and letters and lines of credit and insurance), which additional security or Liens need not be extended to secure any other Notes (including the Series 2005 Note). See **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Liens on Property"** and **"– Permitted Additional Indebtedness"** in *APPENDIX C*.

In determining compliance with a number of provisions of the Master Indenture, including the provisions governing the incurrence of Additional Indebtedness, the Obligated Group may assume that certain types of Indebtedness which bear interest at varying rates and which may not be payable over an extended term will bear interest over time at interest rates approximating current or recent long term fixed rates, will remain outstanding for a term longer than the actual term of such Indebtedness and will be amortized on a level debt service basis. The actual interest rates and payments on such Indebtedness may vary from such assumptions, and such variance may be material. See **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Calculation of Debt Service Coverage"** in *APPENDIX C*.

Amendments to the Master Indenture

The Master Indenture provides that certain amendments may be made to the Master Indenture with the consent of the holders of not less than a majority in aggregate principal amount of the Notes which are Outstanding under the Master Indenture. See **"SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Supplemental Master Indentures"** in *APPENDIX C*.

Certain Master Indenture Covenants of the Obligated Group

For the definitions of certain words and terms used in this section, see **"SUMMARY OF PRINCIPAL DOCUMENTS"** in *APPENDIX C*.

Rate Covenant. Under the provisions of the Master Indenture, each Member covenants and agrees to operate all of its Facilities on a revenue-producing basis and to charge such fees and rates for its Facilities and services and to exercise such skill and diligence, including obtaining payment for services provided, as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this covenant.

The Members covenant and agree that the Obligated Group Representative will calculate the Historical Debt Service Coverage Ratio of the Obligated Group for each Fiscal Year, commencing December 31, 2005.

If the Historical Debt Service Coverage Ratio of the Obligated Group is less than 1.10:1, the Master Trustee shall require the Obligated Group, at the Obligated Group's expense, to retain a Consultant within 30 days following the calculation described herein to make recommendations with respect to the rates, fees and charges of the Members and the Obligated Group's methods of operation and other factors affecting its financial condition in order to generate a Historical Debt Service Coverage Ratio of at least 1.10:1 for the following Fiscal Year.

A copy of the Consultant's report and recommendations, if any, shall be filed with each Member, the Master Trustee and each Required Information Recipient within 60 days of retaining the Consultant. Each Member shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. This covenant shall not be construed to prohibit any Member from serving indigent patients to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements hereof.

The foregoing provisions notwithstanding, if the Historical Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year does not meet the levels required above, the Master Trustee shall not be obligated to require the Obligated Group to retain a Consultant to make such recommendations if: (a) there is filed with the Master Trustee (who shall provide a copy to each Required Information Recipient) a written report addressed to them of a Consultant (which Consultant and report, including without limitation the scope, form, substance and other aspects of such report, are acceptable to the Master Trustee) which contains an opinion of such Consultant that applicable laws or regulations have prevented the Obligated Group from generating Income Available for Debt Service during such Fiscal Year sufficient to meet the requirements of this covenant, and, if requested by the Master Trustee, such report is accompanied by a concurring opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) as to any conclusions of law supporting the opinion of such Consultant; (b) the report of such Consultant indicates that the rates charged by the Obligated Group are such that, in the opinion of the Consultant, the Obligated Group has generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Historical Debt Service Coverage Ratio of the Obligated Group for such Fiscal Year was at least 1.00:1. The Obligated Group shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides to the Master Trustee (who shall provide a copy to each Related Bond Trustee) an opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way.

Notwithstanding any other provisions of the Master Indenture, failure of the Obligated Group to achieve the required Historical Debt Service Coverage Ratio for any Fiscal Year shall not constitute an event of default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law.

Notwithstanding any other provisions of the Master Indenture, in the event that any Member of the Obligated Group incurs any Additional Indebtedness for any acquisition, construction, renovation or replacement project pursuant to any other provision of the Master Indenture, the Debt Service Requirements on such Additional Indebtedness and the Revenues and Expenses relating to the project or

projects financed with the proceeds of such Additional Indebtedness shall be excluded from the calculation of the Historical Debt Service Coverage Ratio of the Obligated Group for the purposes of complying with this covenant, until the first full Fiscal Year following the later of (i) the estimated completion of the acquisition, construction, renovation or replacement project being paid for with the proceeds of such Additional Indebtedness provided that such completion occurs no later than six months following the completion date for such project set forth in the Consultant's report described in (A) below, or (ii) the end of the fourth full Fiscal Year after the incurrence of such Additional Indebtedness, if the following conditions are met:

(A) there is delivered to the Master Trustee a report or opinion of a Consultant to the effect that the Projected Debt Service Coverage Ratio for each of the first two full Fiscal Years following the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of such Additional Indebtedness, provided, however, that in the event that a Consultant shall deliver a report to the Master Trustee to the effect that state or Federal laws or regulations or administrative interpretations of such laws or regulations then in existence do not permit or by their application make it impracticable for Members to produce the required ratio, then such ratio shall be reduced to the highest practicable ratio then permitted by such laws or regulations but in no event less than 1.00:1; provided, however, that in the event a Consultant's report is not required to incur such Additional Indebtedness, the Obligated Group may deliver an Officer's Certificate to the Master Trustee in lieu of the Consultant's report described in this subparagraph (A); and

(B) there is delivered to the Master Trustee an Officer's Certificate on the date on which Financial Statements are required to be delivered to the Master Trustee pursuant to the Master Indenture until the first Fiscal Year in which the exclusion from the calculation of the Historical Debt Service Coverage Ratio no longer applies, calculating the Historical Debt Service Coverage Ratio of the Obligated Group at the end of each Fiscal Year, and demonstrating that such Historical Debt Service Coverage Ratio is not less than 1.00:1, such Historical Debt Service Coverage Ratio to be computed without taking into account (I) the Additional Indebtedness to be incurred if (x) the interest on such Additional Indebtedness during such period is funded from proceeds thereof or other funds of the Member then on hand and available therefor and (y) no principal of such Additional Indebtedness is payable during such period, and (II) the Revenues to be derived from the project to be financed from the proceeds of such Additional Indebtedness.

See "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Rates and Charges" in *APPENDIX C*.

Liquidity Covenant. The Obligated Group covenants that it will deliver an Officer's Certificate to the Master Trustee after the end of each Fiscal Year indicating its Days Cash on Hand as of December 31 of each such Fiscal Year commencing December 31, 2005 (the "Testing Date"). If on any such Testing Date the Obligated Group's Days Cash on Hand is less than 150, or the Obligated Group has not achieved 180 Days Cash on Hand by the next Testing Date following a Testing Date on which the Obligated Group's Days Cash on Hand was less than 180, but at least 150, the Master Trustee shall require the Obligated Group, at its expense, to retain a Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operating and other factors affecting its financial condition in order to increase the Days Cash on Hand to at least 180. A copy of the Consultant's report and recommendations, if any, shall be filed with each Member, the Master Trustee, the Bond Trustee and the Authority. Each Member of the Obligated Group shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Member) and permitted by law. This provision shall not be construed to prohibit the Obligated Group from serving the indigent to the extent required for any Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or

classes of individuals without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this paragraph.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group to achieve the required liquidity covenant on any Testing Date shall not constitute an event of default under the Master Indenture if (i) the Obligated Group takes all action necessary to comply with the procedures set forth in the Master Indenture for preparing a report and adopting a plan, and follows each recommendation contained in the report of the Consultant to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law, and (ii) as of the last day of the Fiscal Year in which Days Cash on Hand of the Obligated Group fell below 180 days based upon the financial statements delivered pursuant to the Master Indenture (the "Liquidity Covenant Default Date"), the Obligated Group maintains a Historical Debt Service Coverage Ratio of at least 1.00:1 for such Fiscal Year or the Days Cash on Hand of the Obligated Group as of the end of such Fiscal Year is at least 150. If, as of the Liquidity Covenant Default Date, the Historical Debt Service Coverage Ratio of the Obligated Group is less than 1.00:1 and the Days Cash on Hand of the Obligated Group is less than 150, such event shall constitute an event of default under the Master Indenture which (notwithstanding any other cure periods for defaults set forth in the Master Indenture) may be cured only upon receipt by the Obligated Group of Cash and Investments (which may not be borrowed funds) sufficient to raise the Historical Debt Service Coverage Ratio of the Obligated Group to 1.00:1 or to raise the Days Cash on Hand of the Obligated Group to 150 days within 10 days of the Liquidity Covenant Default Date. The cure for any such default shall be established in an Officer's Certificate delivered to the Master Trustee within 10 days of the Liquidity Covenant Default Date.

See "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Liquidity Covenant" in *APPENDIX C*.

Financial Reporting.

(a) The Members covenant that they will keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Obligated Group in accordance with generally accepted principles of accounting consistently applied except as may be disclosed in the notes to the audited financial statements referred to in paragraph (b) below. To the extent that generally accepted accounting principles would require consolidation of certain financial information of entities which are not Members of the Obligated Group with financial information of one or more Members, consolidated financial statements prepared in accordance with generally accepted accounting principles which include information with respect to entities which are not Members of the Obligated Group may be delivered in satisfaction of the requirements of this covenant so long as: (i) supplemental information in sufficient detail to separately identify the information with respect to the Members of the Obligated Group is delivered to the Master Trustee with the audited financial statements; (ii) such supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements delivered to the Master Trustee and, in the opinion of the accountant, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole; and (iii) such supplemental information is used for the purposes hereof or for any agreement, document or certificate executed and delivered in connection or pursuant to the Master Indenture.

(b) The Obligated Group Representative will furnish or cause to be furnished to the Master Trustee, the Initial Purchaser, each Related Bond Trustee, all nationally recognized municipal securities information repositories identified by the Securities and Exchange Commission, the Authority (provided that the Authority will be provided only the items set forth in subparagraph (iii) and (iv) below unless the

Authority requests other information being provided in accordance herewith), and all Bondholders who hold \$500,000 or more of any Related Bonds and request such reports in writing (which written request shall include a certification as to such ownership) (collectively, "Required Information Recipients"), the following:

- (i) Beginning December 31, 2005 as soon as practicable after it is available but in no event more than 45 days after the completion of such fiscal quarter: (A) quarterly unaudited financial statements of the Obligated Group (including a report with respect to the fourth quarter of each Fiscal Year) which shall include a combined or combining statement of revenues and expenses and statement of cash flows of the Obligated Group during such period, a combined or combining balance sheet as of the end of each such fiscal quarter, which, in each case, shall include comparisons to the annual budget of the Obligated Group provided pursuant to subsection (iv) below, and (B) a calculation of Days Cash on Hand as of the last day of such quarter and the Historical Debt Service Coverage Ratio of the Obligated Group for such quarter and (2) the marketing and occupancy percentages, the Management Marketing Report, cumulative operating cash ratios, if required to be calculated or submitted for such fiscal quarter.
- (ii) If the Historical Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.00:1 and the Days Cash on Hand of the Obligated Group is less than 180 days for any Testing Date as provided herein, the Obligated Group will deliver the financial information and the calculations described in paragraph (i) above on a monthly basis within 45 days of the end of each month until the Historical Debt Service Coverage Ratio of the Obligated Group is at least 1.00:1 and the Days Cash on Hand of the Obligated Group is at least equal to 180 days.
- (iii) Within 150 days of the end of each Fiscal Year, an annual audited financial report of the Obligated Group prepared by a firm of certified public accountants, including a combined and an unaudited combining balance sheet as of the end of such Fiscal Year and a combined and an unaudited combining statement of changes in fund balances for such Fiscal Year and a combined and an unaudited combining statement of revenues and expenses for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing calculations of the Obligated Group's Historical Debt Service Coverage Ratio for said Fiscal Year and of the Obligated Group's Days Cash on Hand as of the last day of such Fiscal Year and a statement that such accountants have no knowledge of any default under the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof.
- (iv) On or before the date of delivery of the financial reports referred to in subsection (iii) above, an Officer's Certificate of the Obligated Group Representative (A) stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof, (B) calculating and certifying the Days Cash on Hand, and Historical Debt Service Coverage Ratio, as of the end of such fiscal period or Fiscal Year, as appropriate and (C) attaching a copy of the Obligated Group's annual operating and capital budget for the coming Fiscal Year.
- (v) Copies of (A) any board approved revisions to the annual budget provided pursuant to subsection (iv) above, or (B) any correspondence to or from the Internal Revenue Service questioning or contesting the status of a Member as an organization described in Section

501(c)(3) of the Code or with respect to the tax-exempt status of the Related Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes, promptly upon receipt.

(c) The Obligated Group Representative shall furnish or cause to be furnished to the Master Trustee or any Related Bond Trustee, such additional information as the Master Trustee or any Related Bond Trustee may reasonably request concerning any Member in order to enable the Master Trustee or such Related Bond Trustee to determine whether the covenants, terms and provisions of the Master Indenture have been complied with by the Members and for that purpose all pertinent books, documents and vouchers relating to the business, affairs and Property (other than patient, donor and personnel records) of the Members shall, to the extent permitted by law, at all times during regular business hours be open to the inspection of such accountant or other agent (who may make copies of all or any part thereof) as shall from time to time be designated by the Master Trustee or such Related Bond Trustee.

(d) The Members also agree that, within 10 days after its receipt thereof, the Obligated Group Representative will file with the Master Trustee and each Required Information Recipient a copy of each Consultant's report or counsel's opinion required to be prepared under the terms of the Master Indenture. The Master Trustee shall, on behalf of the Obligated Group Representative, provide copies of such items to the Required Information Recipients.

(e) The Obligated Group Representative shall give prompt written notice of a change of accountants by the Obligated Group to the Master Trustee and each Related Bond Trustee. The notice shall state (i) the effective date of such change; (ii) whether there were any unresolved disagreements with the former accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which the accountants claimed would have caused them to refer to the disagreement in a report on the disputed matter, if it was not resolved to their satisfaction; and (iii) such additional information relating thereto as such Related Bond Trustee or the Master Trustee may reasonably request.

(f) Without limiting the foregoing, each Member will permit, upon reasonable notice, the Master Trustee or any such Related Bond Trustee (or such persons as they may designate) to visit and inspect, at the expense of such Person, its Property and to discuss the affairs, finances and accounts of the Obligated Group with its officers and independent accountants, all at such reasonable times and locations and as often as the Master Trustee or such Related Bond Trustee may reasonably desire.

(g) The Obligated Group Representative may designate a different Fiscal Year for the Members of the Obligated Group by delivering a notice to the Master Trustee designating the first and last day of such new Fiscal Year and whether or not there will be any interim fiscal period (the "Interim Period") of a duration of greater than or less than 12 months preceding such new Fiscal Year. The Members covenant that they will furnish to the Master Trustee and each Related Bond Trustee, as soon as practicable after they are available, but in no event more than 150 days after the last day of such Interim Period, a financial report for such Interim Period certified by a firm of independent certified public accountants selected by the Obligated Group Representative covering the operations of the Obligated Group for such Interim Period and containing a combined balance sheet as of the end of such Interim Period and a combined statement of changes in fund balances and changes in financial position for such Interim Period and a combined statement of revenues and expenses for such Interim Period, showing in each case in comparative form the financial figures for the comparable period in the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing a calculation of the Obligated Group's Historical Debt Service Coverage Ratio for the Interim Period and a statement that such accountants have obtained no knowledge of any default by any Member in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such

accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

See **"FINANCIAL REPORTING AND CONTINUING DISCLOSURE – Financial Reporting"** herein for further information.

THE AUTHORITY

The Authority was established on May 15, 2005, as successor to the Indiana Health Facility Financing Authority (the "IHFFA"), which was created in 1983 pursuant to the provisions of the Act, and is organized and existing under and by virtue of the Act as a public body politic and corporate, not an agency of the State of Indiana (the "State"), but as an independent public instrumentality exercising essential public functions. Under the Act, the Authority is authorized to make loans to private institutions of higher education, or "participating providers" (as defined in the Act) in order to provide funds to finance, refinance and provide reimbursement for all or a portion of any and all costs authorized under the Act and related to the acquisition, lease, construction, repair, restoration, reconditioning, refinancing, installation, or housing of "health facility property" (as defined in the Act). The Authority may finance health facility property located in Indiana or outside Indiana if the financing also includes a substantial component, as determined by the Authority, for the benefit of a health facility located in Indiana. Further, the participating provider (or an affiliate thereof) in any financing for a health facility outside Indiana must operate a substantial health facility, as determined by the Authority, in Indiana. The Authority has no taxing power.

The Act provides that the Authority shall consist of seven members, four of whom are appointed by the Governor of the State for terms of four years each. Two of the four members appointed by the Governor must be knowledgeable in health care or public finance and investment matters related to health care and two of the members appointed by the Governor must be knowledgeable in higher education or public finance and investment matters related to higher education. The Authority shall also include among its members (i) the Governor or the Governor's designee, who shall serve as the chairman of the Authority, (ii) the state public finance director or the public finance director's designee, and (iii) the state health commissioner or the state health commissioner's designee. All Authority members must be residents of the State, with not more than three of the four members appointed by the Governor being of the same political party. All Authority members serve without compensation but are entitled to reimbursement for actual and necessary expenses as determined by the Authority. The Governor shall appoint an Executive Director to serve at the pleasure of the Governor and to receive such compensation as the members of the Authority shall determine. The Executive Director serves as *ex officio* secretary of the Authority, administers, manages and directs the employees of the Authority (under the direction of the members of the Authority), approves all accounts and expenses and performs other additional duties as directed by the members of the Authority.

The Act provides that the State of Indiana pledges to, and agrees with, the holders of any obligations issued under the Act that it will not limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged; provided, however, that nothing in the Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligation.

RISK FACTORS

Set forth below are certain risk factors which should be considered before any investment in the Series 2005 Bonds is made. Certain risks are inherent in the successful operation of facilities such as the

Facilities of the Corporation, including the Project. **This section discusses some of these risks but is not intended to be a comprehensive listing of all risks associated with the operation of the Facilities or the payment of the Series 2005 Bonds.**

General

As described herein under the caption, **"INTRODUCTION – Security for the Series 2005 Bonds,"** the principal of, premium, if any, and interest on the Series 2005 Bonds, except to the extent that the Series 2005 Bonds will be payable from the proceeds thereof or investment income thereon or, under certain circumstances, proceeds of insurance, sale or condemnation awards or net amounts by recourse to the Mortgage, are payable solely from amounts payable by the Corporation under the Loan Agreement or the Master Indenture. No representation or assurance is given or can be made that revenues will be realized by the Corporation in amounts sufficient to pay debt service on the Series 2005 Bonds when due and other payments necessary to meet the obligations of the Corporation. The bondholders' risks discussed below should be considered in evaluating the ability of the Corporation to make payments in amounts sufficient to provide for the payment of the principal of, the premium and purchase price, if any, and interest on the Series 2005 Bonds.

The receipt of future revenues by the Corporation will be subject to, among other factors, federal and state policies affecting the senior housing and health care industries (including changes in reimbursement rates and policies), increased competition from other senior housing and health care providers, the capability of the management of the Corporation and future economic and other conditions that are impossible to predict. The extent of the ability of the Corporation to generate future revenues has a direct effect upon the payment of principal of, premium and purchase price, if any, and interest on the Series 2005 Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the Corporation.

This discussion of bondholders' risks is not, and is not intended to be, exhaustive.

Additions to the Obligated Group

The Corporation and the Foundation are the initial Members of the Obligated Group. Upon satisfaction of certain conditions in the Master Indenture, other corporations can become Members of the Obligated Group. See **APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Entrance into the Obligated Group."** Management of the Corporation currently has no plans to add additional Members to the Obligated Group. However, if and when new Members are added, the Obligated Group's financial situation and operations will likely be altered from that of the Corporation and the Foundation.

Management

The successful operation of the Facilities is heavily dependent upon the efforts of its management. No assurance can be given that successful operations of the past will continue. For more information, see **APPENDIX A – "CURRENT CORPORATE ORGANIZATION – Administrative Staff and Biographical Information."**

Utilization Demand

Several factors could, if implemented, affect demand for services of the Facilities including: (i) efforts by insurers and governmental agencies to reduce utilization of nursing home and long-term care facilities by such means as preventive medicine and home health care programs; (ii) advances in scientific

and medical technology; and (iii) increased or more effective competition from nursing home, assisted living facilities and long-term care facilities now or hereafter located in the service area of the Facilities.

Competition

Competition from other lifecare facilities, continuing care retirement communities, congregate housing, assisted living centers, home healthcare agencies and other long-term care facilities which offer sheltered, assisted living or nursing care now or hereafter located in the Facilities' service area could adversely affect its revenues. The Corporation may face additional competition in the future from other providers of new, expanded, or renovated retirement living and nursing facilities servicing the housing and health care needs of the elderly. For more information about competition in the service area of the Facilities, see **APPENDIX A – "PRIMARY MARKET AREAS AND COMPETITIVE ENVIRONMENTS"** herein.

Uncertainty of Investment Income

The investment earnings of, and accumulations in, certain funds established pursuant to the Bond Indenture have been estimated and are based on assumed interest rates as indicated. While these assumptions are believed to be reasonable in view of the rates of return presently and previously available on the types of securities in which the Bond Trustee is permitted to invest under the Bond Indenture there can be no assurance that similar interest rates will be available on such securities in the future, nor can there be any assurance that the estimated funds will actually be realized. Guaranteed investment contracts may be entered into with respect to certain of the funds held under the Bond Indenture.

Rights of Residents

The Corporation enters into residency agreements with its residents. For more information about the residency agreements, see **APPENDIX A – "GENERAL BACKGROUND INFORMATION - Residency Agreement Information."** Although these agreements give to each resident a contractual right to use space and not any ownership rights in the Facilities, in the event that the Bond Trustee or the holders of the Series 2005 Bonds seek to enforce any of the remedies provided by the Bond Indenture upon the occurrence of a default or the Master Trustee seeks to enforce remedies under the Mortgage, it is impossible to predict the resolution that a court might make of competing claims between the Master Trustee, the Bond Trustee, the Authority or the holders of the Series 2005 Bonds and a resident of the Facilities who has fully complied with all the terms and conditions of his or her Residency Agreement.

Regulation

As described under the heading **APPENDIX A – "REGULATION AND LICENSURE – Regulation of Life Care Facilities,"** the Facilities are and will continue to be subject to certain governmental regulation. Indiana has enacted comprehensive legislation which regulates the Facilities. Such legislation is not expected to have a material adverse effect on operations at the Facilities.

Regulation of the Facilities is effected under the Securities Division of the Office of the Indiana Secretary of State. Indiana Code 23-2-4 became effective September 1, 1983. Registration with the Securities Commissioner is required by any facility that charges an entrance fee and assures a person a place in the facility for one or more months. Re-registration is required annually on the anniversary date of the initial registration. An annual disclosure statement, including detailed financial information, is required under the act. In addition, all advertising and contents of the facilities disclosure statements and residency agreements must be approved by the Securities Commissioner.

Present and Prospective Federal and State Regulation

General. The operations of the Facilities, like other health care facilities throughout the country, will be affected on a day-to-day basis by numerous legislative, regulatory and industry-imposed operations and financial requirements which are administered by a variety of federal and state governmental agencies as well as by self-regulatory associations and commercial medical insurance reimbursement programs. It is impossible, however, to predict the effect of any such legislation and regulation on the operations or financial condition of the Facilities.

Nursing care facilities, including those of the Corporation, are subject to numerous licensing, certification, accreditation, and other governmental requirements. These include, but are not limited to, requirements relating to state licensing agencies, private payors and accreditation organizations and certificate of need approval by state agencies of certain capital expenditures. Sheltered and assisted living facilities, including those of the Corporation, are also subject to licensing requirements. Renewal and continuance of certain of these licenses, certifications, approvals and accreditations are based upon inspections, surveys, audits, investigations or other review, some of which may require or include affirmative action or response by the Corporation. An adverse determination could result in a loss, fine or reduction in the Corporation's scope of licensure, certification or accreditation, could affect the ability to undertake certain expenditures or could reduce the payment received or require the repayment of the amounts previously remitted.

Medicare Reimbursement

The Health Insurance for Aged and Disabled Act (Title XVIII of the Social Security Act), known as "Medicare," has made available to nearly every American 65 years of age and older a broad program of health insurance designed to help the nation's elderly meet hospital and other health care costs. The Facilities' health care units are certified to provide skilled nursing services covered by the Medicare program. The requirements for certification under the Medicare program are subject to change, and to remain qualified, it may be necessary for the Facilities' health care units to make changes from time to time in its facilities, equipment, personnel or services. Although the Corporation intends for the Facilities' health care units to participate in Medicare, there can be no assurance that the Facilities' health care units will continue to be qualified for participation.

Covered nursing facility services under Medicare include: (i) nursing care provided by or under the supervision of a registered professional nurse; (ii) bed and board in connection with the furnishing of such nursing care; (iii) physical, occupational or speech therapy furnished by the nursing facility or by others under arrangement; (iv) medical social services; and (v) such drugs, biological supplies, appliances, and equipment furnished for use in the nursing facility, as are ordinarily furnished by such facility for the care and treatment of inpatients.

Health Insurance Portability and Accountability Act. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") was enacted on August 21, 1996. HIPAA adds two prohibited practices, the commission of which may lead to civil monetary penalties: 1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate, i.e., upcoding, and 2) engaging in a practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices could amount to civil monetary penalties of up to \$10,000 for each item or service involved.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and the use of

standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information.

In December 2000, the Secretary of the Department of Health and Human Services ("HHS") released privacy regulations that protect patient medical records and other personal health information maintained by health care providers, hospitals, health plans, health insurers, and health care clearinghouses. Such regulations were modified in August 2002, and compliance with the privacy regulations, as modified, was required as of April 14, 2003. HIPAA also mandates the establishment of security regulations. Though these were issued in final form on February 20, 2003, with a compliance date of April 21, 2005, it is not known at this point how these requirements will affect the Obligated Group. Violation of the privacy or security rules is punishable by civil money penalties of up to \$25,000 per year and criminal penalties of up to \$250,000 and/or imprisonment of up to ten years.

Finally, HHS promulgated regulations to standardize the electronic transfer of information pursuant to certain enumerated transactions (the "Code Set Transactions"). These regulations state that health care entities are not required to conduct electronic transactions. However, if they choose to do so, they will eventually be required to use the mandated data code sets to conduct the transactions.

Licensure. The Corporation and its operations are subject to regulation and certification by various federal, state and local government agencies. No assurance can be given as to the effect on future operations of the Corporation of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards. The assisted living units and nursing beds are subject to various licensing requirements. See *APPENDIX A - "REGULATION AND LICENSURE - Licensure"* for more information.

Increases in Medical Costs

Because the Corporation is obligated to provide a majority of its residents with certain medical care, a deviation from the anticipated mortality rate or medical care requirements of the resident population or substantial unanticipated increases in the cost of medical care could have a negative impact on the operations of the Facilities. The undertaking to provide such medical care is a contractual obligation of the Corporation, and no assurance can be given that the Corporation will have sufficient funds to meet its anticipated obligations. Residents are required to obtain Medicare Part A, Medicare Part B and supplemental insurance satisfactory to the Corporation; however, Medicare does not cover the cost of nursing home care except under certain limited circumstances (including up to 100 days of skilled nursing care following a 3-day hospital stay). In addition, the cost of providing healthcare services may increase due to increases in salaries paid to nurses and other healthcare personnel and due to shortages in such personnel which may require use of employment agencies.

Malpractice Claims

The operations of the Facilities may also be affected by increases in the incidence of malpractice lawsuits against physicians, nursing homes and life care facilities in general and increases in the dollar amount of patient damage recoveries, resulting in increased insurance premiums and an increased difficulty in obtaining malpractice insurance. It is not possible at this time to determine either the extent to which malpractice coverage will continue to be available to the Corporation or the premiums at which such coverage can be obtained.

Nursing Shortage

Recently the healthcare industry has experienced a shortage of nursing and other technical staff, which has resulted in increased costs and lost revenues due to the need to hire agency nursing personnel at higher rates, increased compensation levels, and the inability to use otherwise available beds as a result of staffing shortages. If the shortage continues, it could adversely affect the operations or financial condition of the Corporation and any future Members of the Obligated Group.

Risks Related To Tax Exempt-Status

Below-Market Interest Loans. Section 7872 of the Code (Treatment of Loans with Below-Market Interest Rates), provides for, in certain circumstances, the imputation of interest income to a lender when the rate of interest charged by the lender is below prevailing market rates (as determined under a formula) or, even if the below market interest rate loan would otherwise be exempt from the provisions of Section 7872, when one of the principal purposes for such below-market rate loan is the avoidance of federal income taxation.

A refundable entrance fee payment made by a resident to certain continuing care facilities has been determined under Section 7872 to constitute a below market interest rate loan by the resident to the facility to the extent that the resident is not receiving a market rate of interest on the refundable portion of the entrance fee. Section 7872(g) provides a "safe harbor" exemption for certain types of refundable entrance fees. The statutory language of Section 7872 does not permit a conclusive determination as to whether residency agreements come within the scope of the continuing care facility safe harbor or within the statute itself. Section 7872 is applicable only to "loans" in excess of \$158,100. Current Entrance Fees for the Independent Living Units in the Facilities are in excess of the applicable threshold of Section 7872. Any determination of applicability of Section 7872 could have the effect of discouraging potential residents from becoming or remaining residents of the Facilities.

Intermediate Sanctions. On July 31, 1996, the Taxpayers Bill of Rights 2 (the "Taxpayers Act") was signed into law. The Taxpayers Act provides the IRS with an "intermediate" tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to the "intermediate sanctions law," the IRS could punish such violations only through revocation of an entity's tax-exempt status.

Intermediate sanctions may be imposed where there is an "excess benefit transaction," defined to include a disqualified person (i.e., an insider) (1) engaging in a non-fair market value transaction with the tax-exempt organization; (2) receiving unreasonable compensation from the tax-exempt organization; or (3) receiving payment in an arrangement that violates the private inurement proscription.

A disqualified person who benefits from an excess benefit transaction will be subject to a "first tier" penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in an excess benefit transaction knowing it to be improper are subject to a first-tier penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A "second tier" penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period.

The IRS has also issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to the elderly must operate in order to maintain its exemption under Section 501(c)(3) of the Code. Revenue Rulings 61-72 and 72-124 state that, if otherwise qualified, a facility providing residential services to the elderly is exempt under Section 501(c)(3) if the organization (1) is

dedicated to providing, and in fact provides or otherwise makes available services for, care and housing to aged individuals who otherwise would be unable to provide for themselves without hardship, (2) to the extent of its financial ability, renders services to all or a reasonable proportion of its residents at substantially below actual cost, (3) renders services that minister to the needs of the elderly and relieve hardship or distress. Revenue Ruling 79-18 states that a facility providing residential services to the elderly may admit only those tenants who are able to pay full rental charges, provided that those charges are set at a level that is within the financial reach of a significant segment of the community's elderly persons. The Revenue Ruling also states that the organization must be committed, by established policy, to maintaining persons as residents, even if they become unable to pay the monthly charges after being admitted to the facility.

Tax-Exempt Status. The possible modification or repeal of certain existing federal income or state tax laws or other loss by the Corporation of the present advantages of certain provisions of the federal income or state tax laws could materially and adversely affect the status of the Corporation and thereby the revenues of the Corporation. Failure of the Corporation or the Authority to comply with certain requirements of the Code, or adoption of amendments to the Code to restrict the use of tax-exempt bonds for facilities such as those being financed with Series 2005 Bond proceeds, could cause interest on the Series 2005 Bonds to be included in the gross income of Bondholders or former Bondholders of such Series 2005 Bonds for federal income tax purposes. In such event, the Bond Indenture does not contain any specific provision for acceleration of the Series 2005 Bonds nor provide that any additional interest will be paid to the owners of the Series 2005 Bonds. See ***APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Bond Indenture – Events of Default and Remedies."***

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments, or the interpretation of existing or future laws and regulations will not materially and adversely affect the operations and revenues of the Corporation by requiring them to pay income or real estate taxes.

Amendments to the Documents

Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of the owners of a majority of the principal amount of the outstanding related Series 2005 Bonds Outstanding under the Bond Indenture. Certain amendments to the Master Indenture and the Mortgage may be made with the consent of the holders of a majority of the principal amount of Outstanding Notes. Such amendments may adversely affect the security of the Bondholders and, with respect to the Master Indenture and the Mortgage, such percentage may be composed wholly or partially of the holders of Additional Notes. See ***APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Supplemental Master Indentures, "Summary of Certain Provisions of the Bond Indenture – Supplemental Bond Indentures" and – Amendments of Certain Loan Documents."***

Additional Debt

The Master Indenture permits the Corporation, the Foundation and any future Member of the Obligated Group to incur Additional Indebtedness which may be equally and ratably secured with the Series 2005 Note. Any such additional parity indebtedness would be entitled to share ratably in security interest with the owners of the Series 2005 Note. Any moneys realized from the exercise of remedies in the event of a default by the Obligated Group could reduce the Historical Debt Service Coverage Ratio and could impair the ability of the Obligated Group to maintain its compliance with certain covenants

described in *APPENDIX C* under the caption "**SUMMARY OF PRINCIPAL DOCUMENTS – Summary of Certain Provisions of the Master Indenture – Permitted Additional Indebtedness.**" There is no assurance that, despite compliance with the conditions upon which Additional Indebtedness may be incurred at the time such debt is created, the ability of the Obligated Group to make the necessary payments to repay the Series 2005 Note may not be materially, adversely affected upon the incurrence of Additional Indebtedness.

Bankruptcy

If the Corporation were to file a petition for relief under Chapter 11 of the Federal Bankruptcy Code, its revenues and certain of its accounts receivable and other property acquired after the filing (and under certain conditions some or all thereof acquired within 120 days prior to the filing) would not be subject to the security interests created under the Master Indenture. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon its property. If the bankruptcy court so ordered, the Corporation's property, including its accounts receivable and proceeds thereof, could be used for the benefit of the Corporation despite the security interest of the Master Trustee therein, provided that "adequate protection" is given to the lienholder.

In a bankruptcy proceeding, the petitioner could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or any class of creditors, secured or unsecured. The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly in favor of junior creditors.

Certain Matters Relating to Enforceability of the Master Indenture

The obligations of the Corporation, the Foundation and any future members of the Obligated Group under the Series 2005 Note will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below.

The accounts of the Corporation, the Foundation and any future members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met, notwithstanding the uncertainties as to the enforceability of certain obligations of the Obligated Group contained in the Master Indenture which bear on the availability of the assets and revenues of the Obligated Group to pay debt service on Notes, including the Series 2005 Note pledged under the Bond Indenture as security for the Series 2005 Bonds. The obligations described herein of the Obligated Group to make payments of debt service on Notes issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (i) are requested with respect to payments on any Notes issued by a Member other than the Member from which such payment is requested, issued for a purpose which is not consistent with the charitable purposes of the Member of the Obligated Group from which such payment

is requested or issued for the benefit of a Member of the Obligated Group which is not a Tax-Exempt Organization; (ii) are requested to be made from any moneys or assets which are donor-restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (iv) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the assets of any future Member of the Obligated Group may fall within the categories (ii) and (iii) above with respect to the Series 2005 Note cannot now be determined. The amount of such assets which could fall within such categories could be substantial.

A Member of the Obligated Group may not be required to make any payment on any Note, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member of the Obligated Group to the extent that such payment would render such Member of the Obligated Group insolvent or which would conflict with or not be permitted by or which is subject to recovery for the benefit of other creditors of such Member of the Obligated Group under applicable laws. There is no clear precedent in the law as to whether such payments from a Member of the Obligated Group in order to pay debt service on the Series 2005 Note may be voided by a trustee in bankruptcy in the event of bankruptcy of a Member of the Obligated Group, or by third-party creditors in an action brought pursuant to Indiana fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under Indiana fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or Indiana fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on a Note for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the Member of the Obligated Group is analogous to a guarantor of the debt of the Member of the Obligated Group who directly benefited from the borrowing and that sufficient consideration for the Member of the Obligated Group's guaranty was not received and that the incurrence of such Note has rendered or will render the Member of the Obligated Group insolvent.

The effectiveness of the security interest in the Obligated Group's Gross Revenues granted in the Master Indenture may be limited by a number of factors, including: (i) present or future prohibitions against assignment contained in any applicable statutes or regulations; (ii) certain judicial decisions which cast doubt upon the right of the Master Trustee, in the event of the bankruptcy of any Member of the Obligated Group, to collect and retain accounts receivable from various governmental programs; (iii) commingling of the proceeds of Gross Revenues with other moneys of a Member of the Obligated Group not subject to the security interest in Gross Revenues; (iv) statutory liens; (v) rights arising in favor of the United States of America or any agency thereof; (vi) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (vii) federal bankruptcy laws which may affect the enforceability of the Mortgage or the security interest in the Gross Revenues of the Obligated Group which are earned by the Obligated Group within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against a Member of the Obligated Group; (viii) rights of third parties in Gross Revenues converted to cash and not in the possession of the Master Trustee; and (ix) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Indiana Uniform Commercial Code as from time to time in effect.

There exists, in addition to the foregoing, common law authority and authority under Indiana statutes pursuant to which the Indiana courts may terminate the existence of a not for profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion pursuant to a petition of the Indiana Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The Mortgage

The Corporation will execute three separate First Amendments to the Mortgage on the Mortgaged Property to secure its obligations pursuant to the Master Indenture. In the event that there is a default under the Master Indenture, the Master Trustee has the right to foreclose on the Mortgaged Property under certain circumstances.

All amounts collected upon foreclosure of the Mortgaged Property pursuant to the Mortgage will be used to pay certain costs and expenses incurred by, or otherwise related to, the foreclosure, the performance of the Master Trustee and/or the beneficiary under the Mortgage, and then to pay amounts owing under the Master Indenture in accordance with the provisions of the Master Indenture. See **"SUMMARY OF PRINCIPAL DOCUMENTS - Summary of the Master Indenture -- Defaults and Remedies"** in *APPENDIX C*.

In the event that the Mortgage is actually foreclosed, then, in addition to the customary costs and expenses of operating and maintaining the Facilities, the party or parties succeeding to the interest of the Corporation in the Mortgaged Property (including the Master Trustee, if such party was to acquire the interest of the Corporation in the Mortgaged Property) could be required to bear certain associated costs and expenses, which could include: the cost of complying with federal, state or other laws, ordinances and regulations related to the removal or remediation of certain hazardous or toxic substances; the cost of complying with laws, ordinances and regulations related to health and safety, and the continued use and occupancy of the Facilities, such as the Americans with Disabilities Act; and costs associated with the potential reconstruction or repair of the Mortgaged Property in the event of any casualty or condemnation.

The Facilities are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use.

Any valuation of the Facilities is based on future projections of income, expenses, capitalization rates and the availability of the partial or total property tax exemption. Additionally, the value of the Facilities will at all times be dependent upon many factors beyond the control of the Corporation, such as changes in general and local economic conditions, changes in the supply of or demand for competing properties in the same locality, and changes in real estate and zoning laws or other regulatory restrictions. A material change in any of these factors could materially change the value of the Facilities. Any weakened market condition may also depress the value of the Facilities. Any reduction in the market value of the Facilities could adversely affect the security available to the owners of the Series 2005 Bonds. There is no assurance that the amount available upon foreclosure of the Facilities after the payment of foreclosure costs will be sufficient to pay the amounts owing by the Corporation on the Series 2005 Note.

In the event of foreclosure, a prospective purchaser of the Mortgaged Property may assign less value to the Mortgaged Property than the value of the Mortgaged Property while owned by the Corporation since such purchaser may not enjoy the favorable financing rates associated with the

Series 2005 Bonds and other benefits. To the extent that buyers whose income is not tax-exempt may be willing to pay less for the Mortgaged Property than nonprofit buyers, then the resale of the Mortgaged Property after foreclosure may require more time to solicit nonprofit buyers interested in assuming the financing now applicable to the Mortgaged Property. In addition, there can be no assurance that the Mortgaged Property could be sold at one hundred percent (100%) of its fair market value in the event of foreclosure. Although the Master Trustee will have available the remedy of foreclosure of the Mortgage in the event of a default (after giving effect to any applicable grace periods, and subject to any legal rights which may operate to delay or stay such foreclosure, such as may be applicable in the event of the Corporation's bankruptcy), there are substantial risks that the exercise of such a remedy will not result in recovery of sufficient funds to satisfy all the Corporation's obligations.

Environmental Matters

Health care facilities, such as the Corporation's health care units, are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by such facilities. Among the types of regulatory requirements faced by such facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos; polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the such facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. In their role as owners and operators of properties or facilities, such facilities may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of such facilities, include to some extent in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of such facilities are susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines, or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

Other Possible Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of the Corporation and any future member of the Obligated Group:

- (1) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, given an inability to obtain corresponding increases in revenues from residents whose incomes will largely be fixed;
- (2) Unionization, employee strikes and other adverse labor actions which could result in a substantial increase in expenditures without a corresponding increase in revenues;
- (3) Adoption of other federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of the Corporation and any future member of the Obligated Group;

(4) A decline in the population, a change in the age composition of the population or a decline in the economic conditions of the market area of the Corporation;

(5) The cost and availability of energy which could, among other things, affect the cost of utilities of the Facilities;

(6) Increased unemployment or other adverse economic conditions in the service areas of the Corporation and any future member of the Obligated Group which would increase the proportion of patients who are unable to pay fully for the cost of their care;

(7) Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Corporation and any future Member of the Obligated Group;

(8) The attempted imposition of or the increase in taxes related to the property and operations of not for profit organizations as has occurred in Indiana in connection with a determination that a hospital or nursing care facility not affiliated with the Obligated Group was not fulfilling its charitable requirements under State law;

(9) Inflation or other adverse economic conditions;

(10) Reinstatement or establishment of mandatory governmental wage, rent or price controls;

(11) Changes in tax, pension, social security or other laws and regulations affecting the provisions of health care, retirement benefits and other services to the elderly;

(12) Inability to control the diminution of patients' assets or insurance coverage with the result that the patients' charges are reimbursed from government reimbursement programs rather than private payments;

(13) The occurrence of natural disasters, including floods and earthquakes, which may damage the Facilities of the Corporation and any future members of the Obligated Group, interrupt utility service to the Facilities, or otherwise impair the operation and generation of revenues from said Facilities;

(14) Scientific and technological advances that could reduce demand for services offered by the Corporation and any future members of the Obligated Group; or

(15) Cost and availability of any insurance, such as malpractice, fire, automobile and general comprehensive liability, that organizations such as the Corporation and any future members of the Obligated Group generally carry.

Lack of Marketability

Although the Underwriter intends, but is not obligated, to make a market for the Series 2005 Bonds, there can be no assurance that there will be a secondary market for the Series 2005 Bonds, and the absence of such a market for such bonds could result in investors not being able to resell the Series 2005 Bonds should they need to or wish to do so.

FINANCIAL REPORTING AND CONTINUING DISCLOSURE

Financial Reporting

The Master Indenture requires that the Obligated Group Representative provide to the Master Trustee, the Underwriter, and the Bond Trustee the Authority, provided that the Authority will be provided only the items set forth in (i) and (ii) below unless it requests additional information as set forth below be provided), all nationally recognized municipal securities information repositories identified by the Securities and Exchange Commission and all Bondholders owning \$500,000 or more of any Related Bonds who request in writing (collectively, the "Required Information Recipients"):

(i) an annual audited financial report of the Obligated Group prepared by a firm of certified public accountants within 150 days of the end of each Fiscal Year commencing with the Fiscal Year ended December 31, 2005, including a combined and an unaudited combining balance sheet as of the end of such Fiscal Year and a combined and an unaudited combining statement of changes in fund balances for such Fiscal Year and a combined and an unaudited combining statement of revenues and expenses for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing calculations of the Days Cash on Hand, and Historical Debt Service Coverage Ratio, if required to be calculated or submitted for such fiscal quarter and a statement that such accountants have no knowledge of any default under the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof;

(ii) on or before the date of delivery of the financial reports referred to in subsection (i) above, an Officer's Certificate of the Obligated Group Representative stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture and calculating and certifying the Days Cash on Hand and Historical Debt Service Coverage Ratio, if required to be calculated by the Master Indenture, as of the end of such fiscal period or Fiscal Year, as appropriate and attaching a copy of the Obligated Group's annual operating and capital budget for the coming Fiscal Year commencing with December 31, 2005; and

(iii) promptly upon receipt, copies of any board-approved revisions to the annual budget provided pursuant to subsection (ii) above, or any correspondence to or from the Internal Revenue Service questioning or contesting the status of a Member as an organization described in Section 501(c)(3) of the Code or with respect to the tax-exempt status of the Series 2005 Bonds or any Related Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes.

Continuing Disclosure

Inasmuch as the Series 2005 Bonds are limited obligations of the Authority, the Authority has determined that no financial or operating data concerning it is material to any decision to purchase, hold or sell the Series 2005 Bonds, and the Authority will not provide any such information. The Corporation has undertaken all responsibilities for any continuing disclosure to holders of the Series 2005 Bonds as described below, and the Authority shall have no liability to the holders or any other person with respect to such disclosures.

General. The Corporation has covenanted for the benefit of the Bondholders and the Beneficial Owners (as hereinafter defined under this caption), pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement") to be executed and delivered by the Corporation, to provide or cause to be provided (i) on a quarterly basis, certain financial information for the Obligated Group described in paragraph (i) of "**Financial Reporting**" above (the "Quarterly Report") by not later than the date 45 days after the last day of such fiscal quarter of the Obligated Group; (ii) each year, certain financial information for the Obligated Group and operating data relating to the Obligated Group described in paragraph (i) under the heading "**Financial Reporting**" above as well as under the heading "**Annual Report**" as follows (the "Annual Report") by not later than the date 150 days after the last day of the Fiscal Year of the Obligated Group, commencing with the Annual Report for the fiscal year ended December 31, 2005 provided, however, that if the audited financial statements of the Obligated Group are not available by such date, unaudited financial statements for such party will be included in the Quarterly Report or the Annual Report, as appropriate, and audited financial statements will be provided when and if available; and (iii) timely notices of the occurrence of certain enumerated events, if material. Currently the fiscal year of the Obligated Group commences on January 1. "Beneficial Owners" means, under this caption only, any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2005 Bonds (including persons holding Series 2005 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2005 Bonds for federal income tax purposes. In addition, the Corporation will provide the Dissemination Agent, as defined in the Disclosure Agreement, a copy of any additional information provided to Bondholders pursuant to the Master Indenture or otherwise, as described above.

The Quarterly Report and the Annual Report will be filed by or on behalf of the Obligated Group with each Nationally Recognized Municipal Securities Information Repository and with any Indiana state information depository, in each case as designated from time to time by the Securities and Exchange Commission (the "SEC"). There is currently no Indiana state information depository. The notices of material events will be filed with the Municipal Securities Rulemaking Board or each Nationally Recognized Municipal Securities Information Repository, and with any Indiana state information depository, in each case as designated from time to time by the SEC. These covenants have been made in order to assist the Underwriter and registered brokers, dealers and municipal securities dealers in complying with the requirements of the Rule.

Notice of Certain Events, If Material. The Corporation covenants to provide, or cause to be provided, notice of the occurrence of any of the following events with respect to the Series 2005 Bonds, if material, in a timely manner and in accordance with the Rule:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financing difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events adversely affecting the tax-exempt status of the Series 2005 Bonds;
- (7) Modifications to rights of the security holders;
- (8) Bond calls;

- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities;
and
- (11) Rating changes.

Annual Report. The Annual Report will contain or incorporate by reference at least the audited financial statements of the Obligated Group for the fiscal year ending immediately preceding the due date of the Annual Report; provided, however, that if either of such audited financial statements are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements shall be included in the Annual Report. The financial statements shall be audited and prepared pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles. See also "**Continuing Disclosure - General**" above.

The Corporation may modify from time to time the specific types of information provided to the extent necessary to conform to changes in legal requirements, provided that any such modification will be done in a manner consistent with the Rule and will not materially impair the interests of the Bondholders.

Any or all of the items listed above may be included by specific reference to other documents which previously have been provided to each of the repositories described above or filed with the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Corporation shall clearly identify each such other document as included by reference.

Failure to Comply. In the event of a failure of the Corporation to comply with any provision of the Disclosure Agreement, any holder of Series 2005 Bonds or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with the obligations under the Disclosure Agreement. A failure to comply with the Disclosure Agreement shall not be deemed an event of default under the Bond Indenture, the Mortgage, the Master Indenture or the Loan Agreement. The sole remedy under the Disclosure Agreement in the event of any failure of the Corporation to comply with the Disclosure Agreement shall be an action to compel specific performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

Amendment of the Disclosure Agreement. The provisions of the Disclosure Agreement, including but not limited to the provisions relating to the accounting principles pursuant to which the financial statements are prepared, may be amended as deemed appropriate by an authorized officer of the Corporation but any such amendment must be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretation thereof made from time to time by the SEC. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Corporation or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Series 2005 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of holders of Series 2005 Bonds, as determined by parties unaffiliated with the Corporation (such as independent legal counsel). The foregoing interpretations may be changed in the future.

LITIGATION

The Authority

There is not now pending or, to the knowledge of the Authority, threatened against the Authority any litigation restraining or enjoining the issuance or delivery of the Series 2005 Bonds or questioning or affecting the validity of the Series 2005 Bonds or the proceedings or authority under which the Series 2005 Bonds are to be issued. Neither the creation, organization or existence of the Authority nor the title of any of the present members or other officials of the Authority to their respective offices is being contested. There is no litigation pending or, to the Authority's knowledge, threatened against the Authority which in any manner questions the right of the Authority to enter into the Bond Indenture or the Loan Agreement or to secure the Series 2005 Bonds in the manner provided in the Bond Indenture and the Act.

The Corporation and the Foundation

The Corporation has advised that no litigation, proceedings or investigations are pending or, to its knowledge, threatened against it or the Foundation except (i) litigation, proceedings or investigations in which the probable ultimate recoveries and the estimated costs and expenses of defense, in the opinion of management, will be entirely within the applicable insurance policy limits (subject to applicable deductibles) or are not in excess of the total reserves held under the applicable self-insurance program, or (ii) litigation, proceedings or investigations which if adversely determined will not, in the opinion of management, have a material adverse effect on the operations or condition, financial or otherwise, of the Corporation or the Foundation. The Corporation also has advised that there is no litigation pending or, to the knowledge of the Corporation, threatened, which in any manner questions the right of the Corporation or the Foundation to enter into the financing described herein.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series 2005 Bonds by the Authority are subject to the approval of Ice Miller, Indianapolis, Indiana, Bond Counsel. Bond Counsel has been retained by the Corporation. Certain legal matters will be passed upon for the Authority by Ice Miller, Indianapolis, Indiana, for the Corporation and the Foundation by their counsel, Hawk, Haynie, Kammeyer & Chickedantz, LLP, and for the Underwriter by its counsel, Hall, Render, Killian, Heath & Lyman, P.S.C., Indianapolis, Indiana.

TAX MATTERS

Tax Exemption

In the opinion of Ice Miller, Indianapolis, Indiana, Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2005 Bonds is excludable from gross income under Section 103 of the Code for federal income tax purposes. This opinion relates only to the exclusion from gross income of interest on the Series 2005 Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Authority and the Corporation and the Obligated Group Members with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the Series 2005 Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue. In the opinion of Bond Counsel, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2005 Bonds is exempt from taxation in the State of Indiana. This opinion relates only to the exemption of

interest on the Bonds for State of Indiana income tax purposes. See *APPENDIX D* for the form of approving opinion of Bond Counsel.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2005 Bonds as a condition to the exclusion from gross income of interest on the Series 2005 Bonds for federal income tax purposes. The Authority, the Corporation and the Obligated Group Members will covenant not to take any action nor fail to take any action, within their respective power and control, with respect to the Series 2005 Bonds that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Series 2005 Bonds pursuant to Section 103 of the Code (collectively, the "Tax Covenants"). The Bond Indenture, the Loan Agreement and certain certificates and agreements to be delivered on the date of delivery of the Series 2005 Bonds establish procedures under which compliance with the requirements of the Code can be met. It is not an event of default under the Bond Indenture if interest on the Series 2005 Bonds is not excludable from gross income for federal income tax purposes or otherwise pursuant to any provision of the Code which is not in effect on the Issue Date of the Series 2005 Bonds.

The interest on the Series 2005 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2005 Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax and the environmental tax imposed by Section 59A of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in I.C. 6-5.5) which, in general, are all corporations which are transacting the business of a financial institution in the State of Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code. Taxpayers should consult their own tax advisors regarding the impact of this legislation on their ownership of the Series 2005 Bonds.

Although Bond Counsel will render an opinion that interest on the Series 2005 Bonds is excludable from federal gross income and exempt from State of Indiana income tax, the accrual or receipt of interest on the Series 2005 Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the Bondholder's particular tax status and a Bondholder's other items of income or deduction. Taxpayers who may be affected by such other tax consequences include, without limitation, financial institutions, certain insurance companies, "S" corporations, certain foreign corporations, individual recipients of Social Security or railroad retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Series 2005 Bonds. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2005 Bonds should consult their own tax advisors with regard to other tax consequences of owning the Series 2005 Bonds.

Amortizable Bond Premium

The initial offering price of the Series 2005 Bonds (the "Premium Bonds"), is greater than the principal amount payable at maturity or call date. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity or call). The amount of amortizable Bond

Premium will be computed on the basis of the owner's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning treatment of Bond Premium.

RATING

Fitch Ratings, Inc. ("Fitch") has assigned its municipal bond rating of "A-" to the Series 2005 Bonds. Any explanation of the significance of such rating may only be obtained from Fitch. Certain information and materials not included in this Official Statement were furnished to Fitch concerning the Series 2005 Bonds. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that the rating mentioned above will remain for any given period of time or that such rating might not be lowered or withdrawn entirely by Fitch, if in its judgment circumstances so warrant. The Underwriter has no responsibility to bring to the attention of the holders of the Series 2005 Bonds any proposed revision or withdrawal of the ratings on the Series 2005 Bonds. Any such downward change in or withdrawal of such rating might have an adverse effect on the market price of the Series 2005 Bonds.

No assurance can be given that the ratings will be maintained for any given period of time or may not be revised downward or withdrawn entirely by Fitch if, in its judgment, circumstances warrant. Any such downward change in, or withdrawal of, the ratings may have an adverse effect on the market price of the Series 2005 Bonds. The Underwriter, the Authority and the Corporation have undertaken no responsibility after issuance of the Series 2005 Bonds to assure the maintenance of the ratings or to oppose any such revision or withdrawal.

UNDERWRITING

Pursuant to a purchase contract by and among the Authority, the Corporation and the Underwriter, the Underwriter will purchase the Series 2005 Bonds at a purchase price of \$48,165,325.15, which purchase price reflects \$473,301.40 of underwriter's discount and \$733,626.55 of original issue premium.

The purchase contract will provide that the Underwriter will purchase all of the Series 2005 Bonds if any are purchased. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2005 Bonds to the public. The purchase contract will provide for the Corporation to indemnify the Underwriter (and the Authority with respect to the Series 2005 Bonds) against certain liabilities. The obligation of the Underwriter to accept delivery of the Series 2005 Bonds will be subject to various conditions of the purchase contract.

MISCELLANEOUS

The references herein to the Act, the Master Indenture, the Series 2005 Note, the Bond Indenture, the Loan Agreement, the Mortgage and the Disclosure Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and for full and complete statements of the provisions thereof reference is made to the Act, the Master Indenture, the Series 2005 Note, the Bond Indenture, the Loan Agreement, the Mortgage and the Disclosure Agreement. Copies of such documents are on file at the office of the Authority and following the delivery of the Series 2005 Bonds will be on file at the office of the Bond Trustee. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

It is anticipated that CUSIP identification numbers will be printed on the Series 2005 Bonds, but neither the failure to print such numbers on any Series 2005 Bond nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Series 2005 Bonds.

The attached **APPENDICES** are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Authority has furnished the information contained herein which relates to it. Except for the information concerning the Authority under the captions "**THE AUTHORITY**" and "**LITIGATION - The Authority,**" none of the information in this Official Statement has been supplied or verified by the Authority, and no representation or warranty is made by or on behalf of the Authority, express or implied, as to the accuracy or completeness of such information.

The Corporation has reviewed the information contained herein which relates to the Corporation, its property and operations, and has approved all such information for use within this Official Statement.

The delivery of this Official Statement has been duly authorized by the Authority and the Corporation.

**INDIANA HEALTH AND EDUCATIONAL
FACILITY FINANCING AUTHORITY**

By: /s/ Ryan C. Kitchell
Vice Chair

Approved:

BAPTIST HOMES OF INDIANA, INC.

By: /s/ Richard H. Keenan
President

APPENDIX A

Information Concerning The Obligated Group

APPENDIX A

INFORMATION CONCERNING THE OBLIGATED GROUP

Baptist Homes of Indiana, Inc.

Baptist Homes of Indiana Foundation, Inc.

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GENERAL CORPORATE BACKGROUND

Mission

The mission of Baptist Homes of Indiana, Inc. (the "Corporation"), is to enhance the quality of life for older adults within a secure environment that supports their needs, values, interests and independence while encouraging personal and spiritual development.

History and Corporate Status

The Corporation was conceived in 1904 when an American Baptist family donated 185 acres in the southwest corner of Boone County, Indiana, conditioned upon the American Baptist Churches raising \$5,000 within eighteen months to build an orphanage to be managed by a new corporation. The local churches met the challenge and Articles of Association were executed on March 15, 1905, for the Crawford Baptist Industrial School, a not-for-profit organization with the mission of operating an orphanage and industrial school. In 1937, the school/orphanage assumed the name of the Indiana Baptist Home. In 1952, the Corporation's board of directors officially changed its focus to begin caring for older adults. The Corporation reorganized under the name of Baptist Homes and Hospitals, Inc. in 1966, and then changed its name to Baptist Homes of Indiana, Inc., in April 1978.

The Corporation owns and operates three continuing care retirement communities (CCRCs) and is the managing agent for two separately incorporated HUD subsidized (under Section 202) apartment complexes for older adults and those requiring the features of a specially designed living unit. All properties are in Indiana. The corporate office is on the campus of Hoosier Village Retirement Center, 5300 West 96th Street, Indianapolis, Indiana; the corporate office mailing address is P.O. Box 453, Zionsville, Indiana 46077.

The three continuing care retirement communities are:

- Hoosier Village – Indianapolis, IN
- The Towne House – Ft. Wayne, IN
- Four Seasons – Columbus, IN

The Corporation is exempt from federal income taxation based upon a determination from the Internal Revenue Service that the Corporation is a not-for-profit organization described in Section 501 (c)(3) of the Internal Revenue Code (Code) of 1986. The Internal Revenue Service has further determined that the Corporation is not a private foundation within the meaning of Section 509(a) of the Code.

While the Corporation was originated by concerned American Baptist related persons and today adheres to the moral principles of that religious heritage, neither the American Baptist denomination nor any other Baptist organization is responsible for the contractual or financial obligations of the Corporation.

Obligated Group

In 2000, Baptist Homes of Indiana formed an Obligated Group comprised of its market rate (non HUD-subsidized) operations.

The Bonds will be the obligation of the Obligated Group, of which the members are:

- Baptist Homes of Indiana, Inc.
- Baptist Homes of Indiana Foundation, Inc. (the "Foundation")
- Information about the Foundation is presented at the end of this Appendix A.

The Projects

The table below provides an outline of the components and costs of the anticipated Projects being undertaken by the Corporation with the proceeds of the Series 2005 Bonds.

| Capital Plan for Financing | | 2005 - 2008 | |
|--|--------------------|-------------------|---------------------|
| Major Projects | Year | Anticipated Costs | |
| Hoosier Village - Indianapolis, Indiana | | | |
| Balance on Woodside I (duplex homes) | 2005 | \$ | 150,000 |
| Woodside II (duplex homes) | 20 units 2005-2006 | \$ | 5,214,000 |
| Woodside III (duplex homes) | 20 units 2006-2007 | \$ | 5,330,000 |
| Reconstruct campus entry | 2005 | \$ | 400,000 |
| The Towne House - Fort Wayne, Indiana | | | |
| Chapman's Crossing (duplex homes) | 12 units 2005-2006 | \$ | 3,203,000 |
| Four Seasons - Columbus, Indiana | | | |
| Healthcare Renovations--Project adds no new beds | 2005 | \$ | 100,000 |
| Total Major Projects | | | \$14,397,000 |
| Ongoing Capital Improvements and Replacements | | | |
| Hoosier Village | 2005 | \$ | 470,000 |
| | 2006 | \$ | 570,000 |
| | 2007 | \$ | 400,000 |
| | 2008 | \$ | 325,000 |
| The Towne House | 2005 | \$ | 350,000 |
| | 2006 | \$ | 350,000 |
| | 2007 | \$ | 350,000 |
| | 2008 | \$ | 350,000 |
| Four Seasons | 2005 | \$ | 460,000 |
| | 2006 | \$ | 425,000 |
| | 2007 | \$ | 400,000 |
| | 2008 | \$ | 350,000 |
| Total Other Projects | | | <u>\$4,800,000</u> |
| Total All Projects | | | <u>\$19,197,000</u> |

The Woodside homes at Hoosier Village and the Chapman's Crossing homes at The Towne House are approximately 1,700-2,400 square foot (depending on included options) duplex accommodations designed for active older adults. They are a part of the continuum of care at the respective continuing care retirement units. Two units equal one building.

The entry road at Hoosier Village intersected 96th Street at an angle which made it difficult to enter and exit the campus. The redesigned entry intersects 96th Street at a right angle, improving visibility. The costs also include related landscaping and signage, which will greatly improve the aesthetics.

Residency Agreement Information

Hoosier Village, The Towne House, and Four Seasons are classified as Type B continuing care retirement communities, indicating that the organization assumes very limited actuarial risk for residents' long term care. The Corporation's continuing care residency agreements are considered to be modified agreements. The Corporation offers two types of agreements to residents entering the facility at any level of the continuum:

1. ***Continuing Care Agreement:*** This agreement requires an entrance fee be paid up front. In addition, the resident pays a monthly service fee; however, the monthly fees are discounted for residents with continuing care agreements. Residents with continuing care agreements are also given priority for health center bed availability, and sixty pre-paid days of health center care are provided per contract. Baptist Homes currently offers two types of continuing care agreements which are identical except in regard to their procedures for any refund of entrance fees. The two basic types of continuing care agreements are as follows:
 - a. ***Traditional:*** In regard to the traditional continuing care agreement, in the event an agreement is terminated within the first forty-eight months of residency, the entrance fee is refunded in accordance with the refund policy included in each continuing care agreement. The refund policy provides for a refund of 90% of the entrance fee pro-rated over a forty-eight month period.

$$\text{Refund} = 90\% \text{ of Entrance Fee} \times \frac{48 \text{ Minus Number of Elapsed Months Since Entry Date}}{48}$$

- b. ***Return of Capital Agreement:*** In regard to the return of capital continuing care agreement, upon termination of the agreement at any time, 80% of the original entrance fee is refunded to the resident or the estate of the resident.

While it is the current policy and practice of the board of directors of the Corporation to provide *charitable care* for residents with continuing care agreements who have depleted their funds, this policy/practice is not included in the traditional continuing care agreements. The return of capital agreement references charitable care only in its clarification that, if individuals exhaust their resources, the 80% refund is considered an asset and must be depleted in order to be eligible to apply for charitable care.

Of the two continuing care agreement options, the traditional agreement is most widely utilized. The return of capital agreement currently is being offered only to residents of the Woodside homes (newer, upscale duplex units) at Hoosier Village. This agreement option will also be offered to residents of the new Chapman's Crossing (also upscale duplex units) homes at The Towne House.

2. ***Monthly Rental or Per Diem Agreement:*** This agreement requires only a monthly service fee, which is higher than the monthly fee paid by residents with continuing care agreements. Access to the health center care, however, is not guaranteed and is offered on a fee-for-service basis with no discount and no pre-paid days.

Although the availability of monthly rental agreements at all three CCRC campuses has traditionally been limited to select apartment styles, the Corporation is evaluating extending these agreements to additional apartment styles.

CURRENT CORPORATE ORGANIZATION

Governing Board

The Corporation has a single board of directors which convenes at least three times throughout the year to conduct the business of the Corporation. The board of directors is to consist of a minimum of nine (9) directors or a maximum of thirteen (13) directors, with the exact number of directors specified from time to time by resolution of the board of directors. The board shall attempt to assure that at least two-thirds (2/3) of the directors are American Baptists. The Corporate bylaws also state that the executive minister of the American Baptist Churches of Indiana and the executive minister of the American Baptist Churches of Greater Indianapolis shall serve as non-voting advisors to the board of directors.

Currently there are thirteen (13) voting members of the board of directors and one (1) ex-officio member. In accordance with the bylaws, directors are elected for a term of three (3) years. There is no specified limit to the number of terms a director may serve. Any director of the Corporation, however, may be removed from office at any time, with or without cause, by the affirmative vote of a majority of the directors at any meeting of the directors expressly called to consider such action. A director may also resign at any time by delivering written notice of intention to do so to the chairperson of the board of directors or the secretary of the Corporation.

The board of directors is vested with all corporate powers of the Corporation and has the duty to conduct, manage, and control the property, affairs, and business of the Corporation. Pursuant to the bylaws, the board of directors has three standing committees: the executive committee, the building, grounds, finance, and investment committee, and the personnel and nominating committee. It is noted that each committee may conduct additional meetings if requested by the chairperson of the board of directors or the committee chairperson.

Members of the Board of Directors

The following individuals currently serve as members of the board of directors of Baptist Homes of Indiana, Inc:

| <u>Member & Position</u> | <u>Occupation</u> | <u>Years of Service</u> |
|---|--|--------------------------------|
| Mr. Roger D. Miller Chairperson | Retired - Director, Biosynthetic Manufacturing Eli Lilly & Co., Indianapolis, IN | 8 Years |
| Mrs. Marge Pauszek Vice-Chairperson and Chair, Building, Grounds, Finance, and Investment Committee | Retired Investment Advisor Financial Plans & Strategies, Inc., Greenwood, IN | 6 Years 5 Years |

| <u>Member & Position</u> | <u>Occupation</u> | <u>Years of Service</u> |
|---|---|-----------------------------------|
| Mr. Michael S. Sinn Secretary | Vice President of Operations Harmon Steel, Inc., Indianapolis, IN | 10 Years |
| Mrs. Margaret A. McFrye Assistant Secretary | Retired Realtor Century 21 Alexander, Lebanon, IN | 9 Months |
| Mr. William B. Byrum Director | Partner, Eagle Creek Capital, Indianapolis, IN | 22 Years |
| Judge Norman D. Curry Director | Retired Judge Bartholomew County Superior Court Columbus, IN | 11 Years |
| Dr. Marvin A. Henry Director | Retired Professor of Education and Chairperson, Dept. of Curriculum, Instruction & Media Technology Indiana State Univ., Terre Haute, IN | 23 Years |
| Mr. Richard H. Keenan President/CEO | President/Chief Executive Officer Baptist Homes of Indiana, Inc., Zionsville, IN | 11 Years |
| Mr. Ronald S. Lane Director | Retired Director of Quality Central Technical Organization Cummins Engine Co., Columbus, IN | 26 Yrs. with Corp. 12 on Board |
| Mr. James W. McDaniel Vice-President/CFO | Vice-President/Chief Financial Officer Baptist Homes of Indiana, Inc., Zionsville, IN | 21 Years |
| Mrs. Wendy L. Meredith Director and Chair, Personnel/ Nominating Committee | Pharmacist Wal-Mart Pharmaceuticals Fort Wayne, IN | 9 Months |
| Mr. Raymond E. Mott Director | Retired Senior Vice President/Chief Credit Officer Union Planters Bank, N.A., Vincennes, IN | 5 Months |
| Ms. Jane A. Seigel Director | Executive Director, Indiana Judicial Center, Indianapolis, IN | 9 Years Ex-Officio |
| Dr. Larry D. Mason Ex-Officio Member | Executive Minister American Baptist Churches of Indiana Indianapolis, IN | |

Administrative Staff and Biographical Information

Richard H. Keenan, President/Chief Executive Officer, Age 61. Mr. Keenan joined the Corporation as the president/CEO in 1982 and was named as a member to the Board of Directors several years later. Prior to that time, Mr. Keenan served a nine-year tenure as chief executive officer of Piatt Health Center in Monticello, Illinois, and was the chief executive officer of Piatt County Mental Health

Center in Monticello for two years. Additional professional experience includes serving as a lecturer and field supervisor for the University of Illinois' Jane Adams School of Social Work, as a professional consultant for long term care facilities, and as director of Indiana Community Bank in Lebanon, Indiana. Mr. Keenan has also served as an associate professor of health care administration (undergraduate and graduate studies) for Indiana University, Indianapolis campus since 1989.

Mr. Keenan has served the long term care/ retirement industry in numerous leadership roles including chairman of the Board of Directors of the Indiana Association of Homes and Services for the Aging (IAHSA); member of the house of delegates, finance committee, and office acquisition task force of the American Association of Homes and Services for the Aging (AAHSA); commissioner and certified evaluator for the Continuing Care Accreditation Commission (CCAC); and founding member and first chairman of the board of managers of the Samaritan Alliance, LLC, an alliance of continuing care retirement communities throughout the state of Indiana. Mr. Keenan holds a B.S. degree in liberal arts and sciences from Bradley University and an M.S. degree in clinical psychology from the University of Illinois. He also served in the United States Army from 1967 to 1969, earning the rank of staff sergeant.

James McDaniel, CPA, Vice President/Chief Financial Officer, Age 60. Mr. McDaniel joined the Corporation in 1979 as the organization's chief accountant. In continuing recognition of Mr. McDaniel's financial leadership, he was named comptroller in 1983 and the vice president and comptroller in 1987. He has served as the vice president and chief financial officer of the Corporation since 1991. He has served since 1996 as a member of the board of directors of both the Corporation and Baptist Homes of Indiana Foundation, Inc. Mr. McDaniels' twelve prior years of financial management experience include serving as the chief accountant for National Housing Ministries, American Baptist Churches USA, Valley Forge, Pennsylvania; treasurer of Sunnybrook Holding Corporation, Valley Forge; treasurer of American Baptist Churches of Pennsylvania and Delaware, Valley Forge; and staff accountant at C. S. Oates, CPA, in Lebanon, Indiana.

With a B.S. in business administration from Bridgewater College in Virginia, Mr. McDaniel has been a Certified Public Accountant (CPA) and member of the Indiana CPA Society since 1978. Related professional and civic involvements include serving as secretary/treasurer for the American Baptist Homes and Hospitals Association; as a certified evaluator for the Continuing Care Accreditation Commission; a member of the Indiana Association of Homes and Services for the Aging continuing care committee; treasurer of American Baptist Churches of Greater Indianapolis and president of the board of directors of Edna Martin Christian Center, Indianapolis, Indiana.

Stephanie Eckert, Corporate Marketing Director, Age 58. Ms. Eckert has served as the corporate marketing director of Baptist Homes since 1990. Prior to that time, she was employed for two years by the Indiana Association of Homes and Services for the Aging as an educational consultant and the public relations and services manager. Additional experience includes serving as the public relations assistant at Saint Joseph Hospital in Elgin, Illinois, and a field representative with the American Cancer Society in the Chicago area. With B.S. and M.S. degrees in English and secondary education from Indiana University, Ms. Eckert has also been a high school English teacher. Professional and civic involvements include serving as a certified evaluator and a member of the National Education Campaign Task Force for the Continuing Care Accreditation Commission (CCAC). Ms. Eckert has also served on various committees and the assisted living task force for the Indiana Association of Homes and Services for the Aging.

B. Daniel Carr, Executive Director, The Towne House Retirement Community, Fort Wayne, Indiana. Age 49. Mr. Carr has served as the executive director of The Towne House since 1985. (The position was formerly titled "administrator.") With three years prior experience as an assistant administrator and then administrator for Millers Merry Manor, Inc., in Warsaw, Indiana, Mr. Carr also served four additional years as a nursing home administrator in several locations for Medco Centers, Inc., in Ohio, and Shive Nursing Center in Terre Haute, Indiana. Mr. Carr earned a B.S. degree in public

health administration from the Indiana University School of Medicine and an M.B.A. from Indiana University. Mr. Carr is certified as a preceptor administrator. He is a certified fellow and life member of the American College of Health Care Administrators, having served in numerous capacities for the organization including governor-at-large from 1988 to 1990. Mr. Carr has also served as a certified evaluator for the Continuing Care Accreditation Commission (CCAC) and a member of the board of directors of the Senior Health Care Coordinating Council in Fort Wayne, Indiana. Additionally, Mr. Carr has served on numerous committees and as a member of the board of directors of the Indiana Association of Homes and Services for the Aging.

Sally J. Spencer, Executive Director, Hoosier Village Retirement Center, Indianapolis, Indiana, Age 56. Ms. Spencer has served as the executive director of Hoosier Village since December 1989. (The position was formerly titled “administrator.”) She came to Hoosier Village following six years at Westminster Village Muncie, Inc., Muncie, Indiana, where she was employed first as an assistant director of nursing, then the director of nursing for three years, and finally the assistant administrator for a year. Prior to joining the Westminster Village staff, Ms. Spencer had more than eleven years of additional nursing and nursing supervisory experience. A registered nurse, Ms. Spencer is licensed as a comprehensive health facility administrator, is a certified preceptor administrator, and has earned an associate degree of science from the University of Indianapolis and a B.S. in health care administration from Indiana University. She has served on the board of directors and numerous committees for the Indiana Association of Homes and Services for the Aging and on the association’s task force on revising regulations for licensed residential care.

John Dattilo, Executive Director, Four Seasons Retirement Center, Columbus, Indiana, Age 37. Mr. Dattilo has been the executive director of Four Seasons since March 2003. (The position was formerly titled “administrator.”) For the four years prior to that time, Mr. Dattilo was employed as the vice president of operations/administrator of Wesley Manor, Inc., Frankfort, Indiana. Before joining the staff of Wesley Manor, Mr. Dattilo served as long term care administrator for a total of three years at Hoosier Health Systems in New Castle, Indiana, and Rising Sun Care Center in Rising Sun, Indiana. Prior to his career in long term care, Mr. Dattilo was an instructor for the United States Army Reserves in Louisville, Kentucky. Having earned a B.A. degree from Indiana University, Mr. Dattilo has served as a site evaluator for the Continuing Care Accreditation Commission, a board member and committee chairman for the Indiana Association of Homes and Services for the Aging, and volunteer leader in numerous civic and community organizations.

Conflicts of Interest

Baptist Homes of Indiana, Inc., and Baptist Homes of Indiana Foundation, Inc., have established conflict of interest policies. In accordance with the policies, all members of the board of directors and management staff file annual written conflict of interest disclosure statements. Management believes that no significant conflicts of interest currently exist in the organization.

Description of Facilities and Services

The Corporation owns and operates three continuing care retirement communities (CCRCs) in Indiana. The CCRCs are as follows:

Hoosier Village Retirement Center, 5300 West 96th Street, Indianapolis, Indiana 46268: Hoosier Village’s level of care and housing facility options include the following:

| <u>Level of Care</u> | <u>Type of Housing/ Accommodations</u> | <u>No. of Units</u> |
|--|--|---------------------|
| Independent Living | Houses | 8 |
| | Washington Court Duplexes | 14 |
| | Woodside Duplexes | 20 |
| | Apartments | 51 |
| Licensed Residential Care (With Optional Assisted Living Services) | Apartments | 74 |
| Health Center/Comprehensive Nursing (Includes 12 skilled/Medicare beds and 42 private rooms) | Total Nursing Beds | 80 |

Hoosier Village Retirement Center is located on a 150-acre, wooded campus on the northwest corner of Indianapolis near the village of Zionsville, Indiana, with walking paths and fishing ponds.

The *Residence Hall* is the oldest of the existing main buildings of the Hoosier Village campus. Initially constructed in 1960, the Residence Hall has undergone major renovations during the past ten to fifteen years. At this point, all resident apartments have been reconstructed with new kitchen cabinets and appliances, plumbing, electrical wiring, and HVAC. In response to market preference, many smaller apartments have been combined to make larger ones. To compensate for the reduction in numbers of apartments in the Residence Hall, twenty-four new apartments were added to the inventory in 2000 and 2001. Renovations of the common areas were also completed at that time.

All apartments in the Residence Hall are licensed by the state of Indiana for residential care. Through that licensure the facility may provide assisted living services including, if appropriate, administering medications to any resident in any apartment in the Residence Hall. (Assisted living services are provided for an additional monthly fee.) There is a nurse's station in the Residence Hall which is staffed twenty-four hours a day. Other services, such as bi-weekly housekeeping and flat linen services, are included in the basic monthly service fee.

Deercrest Hall consists of fifty-one (51) spacious apartments for independent living. With the greatest number of apartments having two bedrooms, Deercrest also has several one-bedroom apartments and six with two bedrooms plus a den. The largest is approximately 1400 square feet. The first two wings of Deercrest Hall were built in 1988-89. The remaining two wings were constructed in 1994 along with a dramatic new main entrance for Hoosier Village and new administrative offices. The Deercrest Hall apartments are unlicensed, and services are provided on an ala carte basis.

Hoosier Village also has eight (8) free-standing single-family *homes* and thirty-four (34) *duplexes*. Here, too, services are contracted on an ala carte basis. Of the duplexes, twenty (20) are the new Woodside homes. These upscale duplexes range in size from approximately 1700 to 2400 square feet depending on included options (such as a sun porch, screened porch, bay window, or bonus room over the garage).

In addition to the resident accommodations and the common areas discussed above, Hoosier Village also provides residents with a library, chapel, exercise room, beauty/barber shops, gift shop, craft area, numerous lounge areas, and dining facilities.

The *Hoosier Village Health Center* was constructed in 1996, replacing a much older building. Medicare certified, the health center has a spacious therapy area that provides residents from all areas of the campus with physical, speech, and/or occupational therapies. The health center has two dining rooms,

a social center, private family room, screened porch, enclosed outdoor courtyard, beauty/barber shop, and numerous lounges.

The Towne House Retirement Community, 2209 St. Joe Center Road, Fort Wayne, Indiana, 46825: The Towne House's level of care and housing facility options include the following:

| <u>Level of Care</u> | <u>Type of Housing/ Accommodations</u> | <u>No. of Units</u> |
|---|--|---------------------|
| Licensed Residential Care (<i>With Optional Assisted Living Services</i>) | Apartments | 158 |
| Health Center/Comprehensive Nursing (<i>Includes 6 skilled/Medicare beds and 23 private rooms</i>) | Total Beds | 92 |

The Towne House Retirement Community is located on a thirty-five acre, park-like campus in a residential neighborhood on the northeast side of Fort Wayne, Indiana. The campus features paved walking paths and a gazebo in the woods.

The original *apartment building* is on two levels and is connected to a four story apartment building featuring apartments with patios, balconies, or enclosed sun rooms. In 2002, a new two story addition across the front of the original building was constructed. This project included thirty-six (36) spacious, new apartments, several new administrative offices, and a new main entry for the retirement center. All apartments of The Towne House are licensed by the state of Indiana for residential care. Although many of the residents are very active and function very independently, the facility may, when appropriate, provide (as prescribed by Indiana law and regulations) medical and/or daily living assistance to any resident in any apartment in The Towne House. The apartment building has its own nurse's station, which is staffed twenty-four hours a day. Assisted living services are provided on a fee-for-service basis. The basic monthly service fee, however, does include weekly housekeeping and flat linen services.

The retirement/apartment building has two large resident dining rooms, a private dining room, café, chapel, beauty/barber shop, library, coffee shop, several large recreational areas (The Towne Hall and the Family Room), and numerous lounges.

Connected to the apartment building, the *Health Center at The Towne House* is designed to accommodate 92 residents. Medicare certified, the health center has a large therapy area where physical, occupational, and speech therapies may be provided to any resident of The Towne House as well as Medicare-eligible individuals from the surrounding community. The health center also houses two resident dining rooms, a beauty/barber shop, a large staff training area, a fitness center, a large social center with an attached Florida room, and several lounges.

Four Seasons Retirement Center, 1901 Taylor Road, Columbus, Indiana 47203: Four Seasons' level of care and housing facility options include the following:

| <u>Level of Care</u> | <u>Type of Housing/ Accommodations</u> | <u>No. of Units</u> |
|--|--|---------------------|
| Licensed Residential Care (<i>With Optional Assisted Living Services</i>) | Apartments | 115 |

Health Center/Comprehensive Nursing
(Includes 30 skilled/Medicare beds and 26 private rooms)

Total Beds

76

Four Seasons Retirement Center is located on a twenty-five acre campus in a quiet residential neighborhood on the east side of Columbus, Indiana. The center facilities are all on one level and are interconnected.

The Residence Center of Four Seasons contains 115 apartments that are all licensed by the state of Indiana for residential care. Although many of the individuals who reside in apartments at Four Seasons lead very active, independent lifestyles, the facility may provide assisted living services through its Personalized Services Program to any resident in any Four Seasons apartment. These services are provided on a fee-for-service basis. Included in the basic monthly service fee are bi-weekly housekeeping and weekly flat linen services.

Apartment designs include a few compact studios and a variety of one and two bedroom apartments. The largest apartment style is 1240 square feet with two bedrooms plus a den and sunroom. Facilities in the Residence Center include the garden dining room, a branch bank, a library, a beauty/barber salon, the chapel, and numerous lounges, including the exercise lounge, which has both aerobic and strengthening equipment.

The Medicare-certified *Health Care Center at Four Seasons* houses the Rehabilitation Center, which can provide physical, speech, and occupational therapies for any Four Seasons resident and Medicare eligible individuals from the surrounding communities. Other facilities in the health care center include the social center, beauty/barber shop, secured outdoor courtyard with walking path, and large screened porch.

HUD-Subsidized Senior Housing

The Corporation manages two HUD-subsidized (under Section 8 and Section 202) apartment complexes for older adults and those requiring the features of a specially designed living unit. Residents must be able to function independently in both facilities. Health care services and assistance with daily living are not provided. Both projects have efficiencies, one-bedroom, and two-bedroom units. Those who qualify for rental assistance pay for no more than 30% of the family's monthly adjusted income for rent.

Hoosier Manor, Inc., d.b.a. Crawford Manor:

Constructed in 1983, Crawford Manor is located on an eight acre site on the campus of Hoosier Village Retirement Center in Indianapolis. It contains 100 apartments. Crawford Manor also has a beauty shop, provides weekly scheduled transportation to nearby shopping at no charge, and coordinates an on-site noon meal program.

The Villas Apartments:

Constructed in 1984, The Villas is contiguous with the campus of Four Seasons Retirement Center in Columbus, Indiana. There are 100 apartments, one of which is used as the residence of the manager. Public transportation is available at the front entrance of The Villas.

DEMOGRAPHIC INFORMATION

Unit Mix and Occupancy Levels of Baptist Homes of Indiana, Inc., CCRCs

| | October 31, 2005 | | | | October 31, 2004 | | | | October 31, 2003 | | | | October 31, 2002 | | | |
|-------------------------------|-----------------------|----------------------|---------------|--|-----------------------|----------------------|---------------|--|-----------------------|----------------------|---------------|--|-----------------------|----------------------|---------------|--|
| | Bed/Unit Inventory | Occupied Bed/Unit | % Occupied | | Bed/Unit Inventory | Occupied Bed/Unit | % Occupied | | Bed/Unit Inventory | Occupied Bed/Unit | % Occupied | | Bed/Unit Inventory | Occupied Bed/Unit | % Occupied | |
| <u>Hoosier Village</u> | | | | | | | | | | | | | | | | |
| Res./ Ind. | 167 | 167 | 100% | | 168 | 160 | 95% | | 151 | 145 | 96% | | 151 | 147 | 97% | |
| Health Ctr. | 80 | 66 | 82% | | 80 | 72 | 90% | | 80 | 74 | 93% | | 80 | 76 | 95% | |
| <u>Towne House</u> | | | | | | | | | | | | | | | | |
| Residential | 158 | 148 | 94% | | 162 | 154 | 95% | | 163 | 157 | 96% | | 166 | 151 | 91% | |
| Health Ctr. | 92 | 89 | 97% | | 92 | 92 | 100% | | 84 | 91 | 99% | | 84 | 90 | 98% | |
| <u>Four Seasons</u> | | | | | | | | | | | | | | | | |
| Residential | 115 | 106 | 92% | | 114 | 105 | 92% | | 114 | 111 | 97% | | 115 | 102 | 89% | |
| Health Ctr. | 76 | 61 | 80% | | 76 | 66 | 87% | | 76 | 64 | 84% | | 76 | 74 | 97% | |

PRIMARY MARKET AREAS AND COMPETITIVE ENVIRONMENTS

Hoosier Village:

Hoosier Village's primary geographic market area as defined by key management, based upon admission and inquiry data over the past three years, is approximately within a ten mile radius of the campus. More specifically, the communities from which the majority of Hoosier Village admissions are generated include Zionsville (zip code 46077), north to northwest areas of Indianapolis (especially zip codes 46220, 46240, 46250, 46260, 46268, 46278), Carmel (zip codes 46033 and 46032), and Lebanon (zip code 46052). Secondary market areas include other areas of Boone, Hamilton, and Marion Counties. Hendricks County, which is southwest of Hoosier Village's location, is beginning to emerge as a possible growing source of prospective resident families.

Major competitors in the primary market area include the following continuing care retirement communities: Marquette Manor, Forum, Robin Run, Manor Care at Summertrace, and Zionsville Meadows.

Marquette Manor and Forum are considered by management staff to be the most similar to Hoosier Village in that both facilities are predominately private pay. Like Hoosier Village, neither is participating in Medicaid. A not-for-profit CCRC, Marquette Manor has a Medicare certified health center, an assisted living pavilion, independent living apartments, and cottages. In October 2005, Marquette Manor marketing staff reported occupancy levels of 88% (107 of 121 beds) in their health center and 100% (284 of 284) in all other areas. Forum is a proprietary community with independent living apartments, assisted living apartments, and a Medicare certified health center. In October 2005, Forum staff reported occupancy levels of 89% (66 of 74 beds) in their health center and 100% (118 of 118 units) in their apartments.

Robin Run (proprietary), Manor Care at Summertrace (proprietary), and Zionsville Meadows (proprietary) all participate in both Medicaid and Medicare. Of these communities, Hoosier Village staff views Robin Run as the stronger competitor. In October 2005, Robin Run staff reported occupancy levels of 89% (75 of 84 beds) in the health center, 76% (157 of 199) in the apartments, and 92% (109 of 228) in their cottages. During that same time Zionsville Meadows reported occupancy of 100% (60 of 60 beds) in their health center, 92% (23 of 25 beds) in their Alzheimer's unit, and 95% (57 of 60 units) in independent living.

The two primary free-standing assisted living competitors are Meridian Oaks and Sunrise (formerly Karrington) at Willow Lake. Meridian Oaks reported an occupancy level of only 59% (43 of 73). Sunrise reported an occupancy level of 100% (62 of 62 beds/units). In the past five years, Sunrise at Willow Lake has reduced its unit inventory from 71 to 62 beds and has converted 26 beds from assisted living to nursing. (Occupancy levels were reported in October 2005.)

Marketing efforts began in the summer of 2005 for the development of a new continuing care retirement community in the primary market area of Hoosier Village. Plans for Stratford of West Clay, the proposed new community, include 260 independent living apartments, 40 cottages, and 45 assisted living beds. As of October 2005, reports indicated that no nursing beds were planned for the community.

The Towne House:

The primary geographic market area for The Towne is defined as nine zip code areas in Fort Wayne. These are located immediately around The Towne House campus and southwest along Interstate-69. They include the 46835, 46805, 46815, 46825, 46804, 46845, 46807, 46809, and 46802 zip codes. Sixty to seventy percent of new admissions typically come from these areas. Secondary market areas include Kendallville, Columbia City, Leo, and other areas of Fort Wayne.

The Towne House management staff consider the major competitors in the primary market area to be Saint Anne Home and Retirement Community (not-for-profit CCRC), Golden Years Homestead (non-for-profit CCRC), Lutheran Homes (not-for-profit CCRC), Georgetown Apartments (proprietary multi-generational apartments with some seniors services), Arbor Glen (proprietary independent living apartments with a few garden homes and the availability of some non-health care services), and Sunrise (proprietary assisted living facility). In October 2005, Saint Anne staff reported 99% (165 of 166 beds) occupancy in their health center and 100% in their apartments (93 of 93). Golden Years reported health center census of 91% (96 of 105 beds) and apartment occupancy of 88% (113 of 128). Sunrise's census approximated 98%.

Four Seasons:

Four Seasons' primary market area is the community of Columbus and the areas of Bartholomew County surrounding Columbus. The overwhelming majority of new admissions originate in the 47201 and 47203 zip codes. Secondary market areas include the outlying areas of Bartholomew County and communities within a half hour radius of the community, such as Greensburg, Seymour, Nashville, and North Vernon.

Competitors located in Four Seasons primary market area include Silver Oaks (a proprietary community with assisted living and nursing beds certified for both Medicaid and Medicare), Parkside Court (a proprietary community with independent and assisted living apartments), Greentree (a proprietary assisted living community), Keepsake Village (a proprietary dementia care community, formerly Altera Sterling House), Columbus Health and Rehabilitation Center (a proprietary nursing home which participates in both Medicaid and Medicare), and Willow Crossing (a proprietary nursing home which participates in Medicaid and Medicare, formerly known as Columbus Community Care Center).

In October 2005, Silver Oaks reported 89% occupancy in assisted living, 71% occupancy in nursing beds, and 83% in its Alzheimer's unit. Parkside Court staff indicated their apartments were 95% occupied (112 of 118). Greentree staff reported their occupancy to be approximately 88% (51 of 58 apartments). Columbus Health and Rehabilitation Center reported 66% occupancy (150 of 227 occupied beds). Willow Creek reported an occupancy level of 97% (65 of 67 beds).

REGULATION AND LICENSURE

Regulation of Life Care Facilities

The Facilities are and will continue to be subject to certain governmental regulation. Indiana has enacted comprehensive legislation which regulates the Facilities. Such legislation is not expected to have a material adverse effect on operations at the Facilities.

Regulation of the Facilities is effected under the Securities Division of the Office of the Indiana Secretary of State. Indiana Code 23-2-4 became effective September 1, 1983. Registration with the Securities Commissioner is required by any facility that charges an entrance fee and assures a person a place in the facility for one or more months. Re-registration is required annually on the anniversary date of the initial registration. An annual disclosure statement, including detailed financial information, is required under the act. In addition, all advertising and contents of the facilities disclosure statements and residency agreements must be approved by the Securities Commissioner.

Licensure

Residential care apartments at all three of the Corporation's Facilities are licensed by the Indiana State Department of Health for assisted living services. In addition, all three health centers at the Corporation's Facilities are licensed by the Indiana State Department of Health.

FINANCIAL INFORMATION

The following table sets forth the Historical Debt Service Coverage and Other Financial Ratios of the Obligated Group.

Baptist Homes of Indiana, Inc. and Baptist Homes of Indiana Foundation, Inc.

Historical Debt Service Coverage and Other Financial Ratios

| Historical Debt Service Coverage Ratio | 9 Months Ending September 30, | | Years Ended December 31, | | |
|--|-------------------------------|--------------|--------------------------|--------------|--------------|
| | 2005 | 2004 | 2004 | 2003 | 2002 |
| Increase (Decrease) in Unrestricted Net Assets | \$ 4,098,975 | \$ 3,165,795 | \$ 5,489,301 | \$ 4,881,337 | \$ 799,167 |
| Plus depreciation and amortization | 2,109,062 | 2,001,407 | 2,735,489 | 2,674,589 | 2,310,892 |
| Plus interest expense | 961,827 | 969,941 | 1,096,508 | 1,285,139 | 1,078,736 |
| Plus loss on disposal of property & equipment | - | - | 150,591 | 22,057 | - |
| Plus entrance fees received, net of refunds (1) | 2,482,489 | 1,578,293 | 2,800,157 | 2,358,080 | 2,089,616 |
| Minus entrance fee amortization | (2,747,835) | (2,101,060) | (3,332,818) | (3,169,203) | (2,351,522) |
| Minus unrealized gains (losses) on investments | (150,016) | 16,780 | (1,040,512) | (1,859,225) | 468,856 |
| Net Income Available for Debt Service | \$ 6,754,502 | \$ 5,731,156 | \$ 7,898,716 | \$ 6,192,774 | \$ 4,395,745 |
| Debt Service for Long-Term Indebtedness | \$ 961,827 | \$ 969,941 | \$ 1,621,508 | \$ 1,785,139 | \$ 1,533,736 |
| Historical Debt Service Coverage Ratio | 7.02x | 5.91x | 4.87x | 3.47x | 2.83x |
| Proforma Debt Service for Long Term Indebtedness | \$ 2,406,319 | \$ 2,406,319 | \$ 3,208,425 | \$ 3,208,425 | \$ 3,208,425 |
| Proforma Historical Debt Service Coverage Ratio | 2.81x | 2.38x | 2.46x | 1.93x | 1.37x |

(1) Excludes initial entrances of \$3,575,871, \$660,000, and \$3,717,400 for December 31, 2004, 2003, and 2002. Excludes initial entrance fees of \$3,027,162 for September 30, 2004.

| Days Cash on Hand | 2005 | 2004 | 2004 | 2003 | 2002 |
|---|---------------|---------------|---------------|---------------|---------------|
| Cash and equivalents | \$ 12,891,298 | \$ 12,019,786 | \$ 10,727,001 | \$ 8,597,591 | \$ 9,515,918 |
| Short-term investments | 27,765,239 | 22,383,275 | 25,060,735 | 20,798,825 | 13,046,229 |
| Total Unrestricted Cash and Investments | \$ 40,656,537 | \$ 34,403,061 | \$ 35,787,736 | \$ 29,396,416 | \$ 22,562,147 |
| Operating Expenses | \$ 20,524,848 | \$ 19,753,626 | \$ 26,304,395 | \$ 25,624,063 | \$ 24,140,098 |
| Less Depreciation and amortization | (2,109,062) | (2,001,407) | (2,735,489) | (2,674,589) | (2,310,892) |
| Less loss on disposal of property and equipment | - | - | (150,591) | (22,057) | - |
| Total Cash Operating Expenses | \$ 18,415,786 | \$ 17,752,219 | \$ 23,418,315 | \$ 22,927,417 | \$ 21,829,206 |
| Daily Cash Operating Expenses | \$ 68,207 | \$ 65,749 | \$ 64,160 | \$ 62,815 | \$ 59,806 |
| Days Cash on Hand | 596 | 523 | 558 | 468 | 377 |

| Unrestricted Cash and Investments to Long-Term Indebtedness | 2005 | 2004 | 2004 | 2003 | 2002 |
|--|---------------|---------------|---------------|---------------|---------------|
| Cash and equivalents | \$ 12,891,293 | \$ 12,019,786 | \$ 10,727,001 | \$ 8,597,591 | \$ 9,515,918 |
| Short-term investments | 27,765,239 | 22,383,275 | 25,060,735 | 20,798,825 | 13,046,229 |
| Total Unrestricted Cash and Investments | \$ 40,656,532 | \$ 34,403,061 | \$ 35,787,736 | \$ 29,396,416 | \$ 22,562,147 |
| Long-Term Indebtedness Outstanding | \$ 27,680,000 | \$ 28,235,000 | \$ 27,680,000 | \$ 28,235,000 | \$ 28,760,000 |
| Unrestricted Cash and Investments to Long-Term Indebtedness | 1.47x | 1.22x | 1.29x | 1.04x | 0.78x |
| Proforma Unrestricted Cash and Investments (2) | \$ 33,156,532 | \$ 26,903,061 | \$ 28,287,736 | \$ 21,896,416 | \$ 15,062,147 |
| Proforma Long-Term Indebtedness Outstanding | \$ 47,905,000 | \$ 47,905,000 | \$ 47,905,000 | \$ 47,905,000 | \$ 47,905,000 |
| Proforma Unrestricted Cash and Investments to Long-Term Indebtedness | 0.69x | 0.56x | 0.59x | 0.46x | 0.31x |

(2) \$7.5 million is excluded from proforma unrestricted cash and investments because it may be transferred to an affiliate of the Corporation.

The table below presents a comparative summary of historical consolidated statements of unrestricted revenues and expenditures of the Corporation and the Foundation for the last three fiscal years. This information has been derived from the audited consolidated financial statements of the Corporation and the Foundation, including the notes thereto, contained in Appendix B to this Official Statement. The information presented for the nine months ended September 30, 2005 and 2004 has been

derived from the unaudited consolidated financial statements of the Corporation and the Foundation and reflects all adjustments, consisting of adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation of the interim periods. The results of the nine month period ended September 30, 2005 will not necessarily be indicative of year-end results. In the opinion of management, there has been no material adverse changes in the financial condition of the Corporation and the Foundation since December 31, 2004, the date of the last audited consolidated financial statements.

Baptist Homes of Indiana, Inc. and Baptist Homes of Indiana Foundation, Inc.
Comparative Summary of Consolidated Unrestricted Revenues and Expenses

| | Unaudited 9 Months Ending September 30, | | Audited Fiscal Years Ended December 31, | | |
|--|---|----------------------|--|----------------------|----------------------|
| | <u>2005</u> | <u>2004</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
| Revenues: | | | | | |
| Net resident services and other related revenue | \$ 16,438,971 | \$ 16,457,856 | \$ 23,964,939 | \$ 22,643,417 | \$ 21,774,225 |
| Amortization of entrance fees | 2,747,835 | 2,001,060 | 3,332,818 | 3,169,203 | 2,351,522 |
| Contributions | 226,267 | 697,186 | 1,146,394 | 676,616 | 165,600 |
| Other | 3,548,915 | 3,051,256 | 1,323,248 | 1,425,506 | 1,118,448 |
| Investment income (loss) | 1,661,835 | 712,063 | 2,100,611 | 2,428,524 | (493,941) |
| Net Assets released from restriction | | | <u>9,221</u> | <u>162,134</u> | <u>23,411</u> |
| Total unrestricted revenues, gains and other support | \$ <u>24,623,823</u> | \$ <u>22,919,421</u> | \$ <u>31,877,231</u> | \$ <u>30,505,400</u> | \$ <u>24,939,265</u> |
| Expenses: | | | | | |
| Salaries and wages | \$ 9,081,955 | \$ 9,016,716 | \$ 12,239,421 | \$ 11,995,036 | \$ 11,431,126 |
| Employee benefits | 2,352,321 | 2,375,778 | 3,101,172 | 3,019,289 | 2,779,554 |
| Contracts, rents and services | 1,284,500 | 1,071,827 | 1,546,339 | 1,302,544 | 1,617,829 |
| Food and supplies | 1,851,086 | 1,730,854 | 2,397,678 | 2,220,193 | 2,125,475 |
| Repairs and maintenance | 629,669 | 642,022 | 581,976 | 387,121 | 430,433 |
| Utilities | 924,873 | 817,154 | 1,114,602 | 1,116,871 | 1,022,974 |
| Depreciation | 2,099,202 | 1,996,377 | 2,699,489 | 2,659,589 | 2,295,892 |
| Insurance | 647,046 | 511,947 | 623,138 | 744,907 | 416,394 |
| Annuity obligation disbursements | 20,688 | 21,297 | 30,529 | 81,509 | 94,460 |
| Professional and administrative expenses | 506,875 | 474,281 | 419,931 | 411,157 | 439,179 |
| Travel | 25,740 | 27,357 | 64,277 | 67,010 | 63,183 |
| Charitable grants disbursed | 97,076 | 59,334 | 27,982 | 14,345 | 34,574 |
| Other | 41,990 | 38,741 | 444,888 | 319,353 | 310,289 |
| Interest | <u>961,827</u> | <u>969,941</u> | <u>1,096,508</u> | <u>1,285,139</u> | <u>1,078,736</u> |
| Total expenses | \$ <u>20,524,848</u> | \$ <u>19,753,626</u> | \$ <u>26,387,930</u> | \$ <u>25,624,063</u> | \$ <u>24,140,098</u> |
| Increase in unrestricted net assets | \$ <u>4,098,975</u> | \$ <u>3,165,795</u> | \$ <u>5,489,301</u> | \$ <u>4,881,337</u> | \$ <u>799,167</u> |

Management's Discussion and Analysis of Results of Operations Fiscal Year 2004 Compared to Fiscal Year 2003 and for the Periods Ended September 30, 2005 and 2004.

The following information is based upon and should be read in conjunction with the Corporation's and the Foundation's audited financial statements for the twelve-month periods ended December 31, 2004 and 2003, respectively.

Net resident service and other related revenue increased by \$1,321,522 or 5.8%. Residential and health center occupancy rates have averaged above 90% over the two year period. Resident and health center rates have increased between 3.5% and 5.0% during this period. The balance of the increase has been the result of increased occupancy. For the nine months ended September 30, 2005, net resident service and other related revenue has decreased by \$18,885 or 0.1% compared with the same period in 2004. While residential occupancy has remained about the same, the health center occupancy is a little

lower. Although it is still averaging 90%, six beds have been removed to provide more private rooms and an office.

Contribution revenue increased by \$469,778 from 2003 to 2004. The Corporation does not include contributions in its budget process and is not reliant upon them to provide services. Two larger estates were received in 2004 which accounted for the increase. A large estate gift has not been received in 2005.

Investment income of \$2,100,611 was recorded in 2004. While this was \$327,913 less than that recorded in 2003, it was significantly better than the loss posted in 2002. Although the Corporation's portfolio is well diversified, actual investment income is dependent on market conditions. As with contributions, the Corporation is not reliant upon investment income to provide services to residents.

Operating expenses increased by \$763,867 or 3.0% between 2003 and 2004, and by \$771,222 or 3.9% between the first nine months of 2004 and 2005.

As of December 31, 2004, the Corporation was in compliance with all bond covenants, with days cash on hand of 558 and 468 at December 31, 2004 and 2003, respectively, and 596 and 523 on September 30, 2005 and 2004, respectively. The debt service coverage ratios were 4.87 and 3.47 at December 31, 2004 and 2003, respectively, and 7.02 and 5.91 on September 30, 2005 and 2004, respectively.

MISCELLANEOUS

Accreditation

The Corporation's three continuing care retirement communities are among only nine CCRCs in Indiana to have earned national accreditation from CARF-CCAC (the Continuing Care Accreditation Commission). All three Baptist Homes CCRCs were first accredited in 1990. As facilities must go through the accreditation review process every five years, the Baptist Homes CCRCs earned re-accreditation in 2000. This year (2005) the facilities are once again completing the self-assessments for re-accreditation. Site surveys are expected in February or March of 2006.

Fair Housing Policy

The Corporation is pledged to the letter and spirit of the United States policy for achievement of equal housing opportunity throughout the nation. The Corporation encourages and supports an affirmative advertising and marketing program in which there are no barriers to obtaining housing for the elderly because of race, color, religion, sex, handicap, familial status, or national origin.

The Foundation

Baptist Homes of Indiana Foundation, Inc., was established in 1986. Separately incorporated and with its own governing board of directors, the Foundation is an avenue by which charitable gifts and investments may be made to support the mission of the Corporation. Funds provided through the Foundation are to be utilized at the Corporation's communities to help fund improvements such as renovations, expansions, and equipment purchases; to assist residents who have depleted their financial resources; and to provide additional benefits for the Corporation's communities as determined by the Foundation's board of directors.

The following individuals currently serve as members of the Board of Directors of the Foundation:

Member & Position**Occupation**

Mrs. Marjorie D. Pauszek
Chairperson

Retired Investment Advisor
Financial Plans & Strategies, Inc., Greenwood, IN

Mr. Ronald S. Lane
Vice-Chairperson

Retired Director of Quality
Central Technical Organization
Cummins Engine Co., Columbus, IN

Mr. A. Eugene Crum
Secretary

Retired Medical Plans Manager
Internal Medicine Division, Lilly Research Laboratory
Eli Lilly and Company, Indianapolis, IN

Mr. Jerry Meredith
Treasurer

Pharmacist
Fort Wayne, IN

Mrs. Margaret A. McFrye
Director

Retired Realtor
Century 21 Alexander, Lebanon, IN

Mr. James W. McDaniel
Director & Vice President/CFO
(Officer)

Vice-President/Chief Financial Officer
Baptist Homes of Indiana, Inc.
Zionsville, IN

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APPENDIX B
Audited Financial Statements

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*BAPTIST HOMES
OF INDIANA, INC.*

AND

BAPTIST HOMES OF INDIANA FOUNDATION, INC.

**COMBINED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2004, 2003 and 2002

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**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

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**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

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800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

Independent Auditors' Report

Board of Directors
Baptist Homes of Indiana, Inc.
and Baptist Homes of Indiana Foundation, Inc.

We have audited the accompanying combined balance sheets of Baptist Homes of Indiana, Inc. and Baptist Homes of Indiana Foundation, Inc. as of December 31, 2004 and 2003, and the related combined statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2004. These combined financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Baptist Homes of Indiana, Inc. and Baptist Homes of Indiana Foundation, Inc. at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
March 11, 2005

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINED BALANCE SHEETS
December 31, 2004 and 2003**

ASSETS

| | 2004 | 2003 |
|---|-----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and equivalents | \$ 10,727,001 | \$ 8,597,591 |
| Short-term investments | 25,060,735 | 20,798,825 |
| Resident and patient accounts receivable, less allowance for uncollectible accounts of \$44,800 in 2004 and 2003 | 963,261 | 854,600 |
| Pledges receivable | 512 | 13,148 |
| Inventories | 118,978 | 124,623 |
| Prepaid expenses and other receivables | 536,075 | 472,179 |
| Total Current Assets | <u>37,406,562</u> | <u>30,860,966</u> |
| PROPERTY AND EQUIPMENT | | |
| Land | 486,934 | 486,304 |
| Land improvements | 4,959,766 | 4,439,876 |
| Buildings and improvements | 56,100,636 | 52,996,596 |
| Furniture and equipment | 8,425,712 | 10,772,448 |
| Automobiles | 768,658 | 698,647 |
| Construction-in-progress | 306,637 | 1,965,063 |
| | <u>71,048,343</u> | <u>71,358,934</u> |
| Less: Allowance for depreciation | 25,416,332 | 27,051,744 |
| Total Property and Equipment | <u>45,632,011</u> | <u>44,307,190</u> |
| OTHER ASSETS | | |
| Beneficial interest in trusts | 406,000 | 393,000 |
| Loan receivable from IAHSa | 114,863 | 147,221 |
| Deferred financing costs, net of amortization | 497,537 | 533,537 |
| Designated cash-deferred compensation plan | 352,564 | 242,084 |
| Escrow funds | 2,995,618 | 2,965,273 |
| Total Other Assets | <u>4,366,582</u> | <u>4,281,115</u> |
| TOTAL ASSETS | <u><u>\$ 87,405,155</u></u> | <u><u>\$ 79,449,271</u></u> |

See accompanying notes.

LIABILITIES AND NET ASSETS

| | 2004 | 2003 |
|---|-----------------------------|-----------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 956,548 | \$ 1,378,983 |
| Salaries, wages and related liabilities | 2,227,083 | 1,858,617 |
| Interest rate swap costs payable | 200,000 | 320,000 |
| Estimated refundable entrance fees | 420,000 | 420,000 |
| Annuity obligations | 160,556 | 175,617 |
| Current portion of long-term debt | 555,000 | 525,000 |
| Total Current Liabilities | <u>4,519,187</u> | <u>4,678,217</u> |
| DEFERRED REVENUE | | |
| Entrance fees from residents, less estimated current portion refundable | 21,061,889 | 17,827,199 |
| Entrance fees from applicants | 181,291 | 246,550 |
| Total Deferred Revenue | <u>21,243,180</u> | <u>18,073,749</u> |
| LONG-TERM DEBT , less current portion | <u>27,680,000</u> | <u>28,235,000</u> |
| Total Liabilities | <u>53,442,367</u> | <u>50,986,966</u> |
| NET ASSETS | | |
| Unrestricted | 32,518,760 | 27,029,459 |
| Temporarily restricted | 944,028 | 932,846 |
| Permanently restricted | 500,000 | 500,000 |
| Total Net Assets | <u>33,962,788</u> | <u>28,462,305</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 87,405,155</u></u> | <u><u>\$ 79,449,271</u></u> |

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINED STATEMENTS OF OPERATIONS
Years Ended December 31, 2004, 2003 and 2002**

| | 2004 | 2003 | 2002 |
|---|---------------------|---------------------|--------------------|
| OPERATING REVENUE | | | |
| Net resident services and other related revenue | \$ 23,964,939 | \$ 22,643,417 | \$ 21,774,225 |
| Entrance fee amortization | 3,332,818 | 3,169,203 | 2,351,522 |
| Contributions | 1,146,394 | 676,616 | 165,600 |
| Other | 1,323,248 | 1,314,573 | 1,090,535 |
| Total Operating Revenue | <u>29,767,399</u> | <u>27,803,809</u> | <u>25,381,882</u> |
| OPERATING EXPENSES | | | |
| Salaries and wages | 12,239,421 | 11,995,036 | 11,431,126 |
| Employee benefits | 3,101,172 | 3,019,289 | 2,779,554 |
| Contracts, rents and services | 1,546,339 | 1,302,544 | 1,617,829 |
| Food and supplies | 2,397,678 | 2,220,193 | 2,125,475 |
| Repairs and maintenance | 581,976 | 387,121 | 430,433 |
| Utilities | 1,114,602 | 1,116,871 | 1,022,974 |
| Depreciation | 2,699,489 | 2,659,589 | 2,295,892 |
| Insurance | 623,138 | 744,907 | 416,394 |
| Annuity obligation disbursements | 30,529 | 81,509 | 94,460 |
| Professional and administrative expenses | 419,931 | 411,157 | 439,179 |
| Travel | 64,277 | 67,010 | 63,183 |
| Charitable grants disbursed | 27,982 | 14,345 | 34,574 |
| Other | 361,353 | 319,353 | 310,289 |
| Total Operating Expenses | <u>25,207,887</u> | <u>24,338,924</u> | <u>23,061,362</u> |
| Income from Operations | <u>4,559,512</u> | <u>3,464,885</u> | <u>2,320,520</u> |
| NONOPERATING GAINS (LOSSES) | | | |
| Investment income (loss) | 2,100,611 | 2,428,524 | (493,941) |
| Interest expense | (1,096,508) | (1,285,139) | (1,078,736) |
| Other | (83,535) | 110,933 | 27,913 |
| Total Nonoperating Gains (Losses) | <u>920,568</u> | <u>1,254,318</u> | <u>(1,544,764)</u> |
| NET INCOME | 5,480,080 | 4,719,203 | 775,756 |
| FUNDS RELEASED FROM RESTRICTION | <u>9,221</u> | <u>162,134</u> | <u>23,411</u> |
| INCREASE IN UNRESTRICTED NET ASSETS | <u>\$ 5,489,301</u> | <u>\$ 4,881,337</u> | <u>\$ 799,167</u> |

See accompanying notes.

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2004, 2003 and 2002**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-----------------------------|---------------------------|---------------------------|-----------------------------|
| NET ASSETS AT DECEMBER 31, 2001 | \$ 21,348,955 | \$ 1,005,266 | \$ 500,000 | \$ 22,854,221 |
| Net income | 775,756 | | | 775,756 |
| Contributions and other | | 54,355 | | 54,355 |
| Foundation contributions | | 150 | | 150 |
| Expenditures for restricted purposes | <u>23,411</u> | <u>(23,411)</u> | | |
| Increase in net assets | <u>799,167</u> | <u>31,094</u> | <u>-</u> | <u>830,261</u> |
| NET ASSETS AT DECEMBER 31, 2002 | <u>22,148,122</u> | <u>1,036,360</u> | <u>500,000</u> | <u>23,684,482</u> |
| Net income | 4,719,203 | | | 4,719,203 |
| Contributions and other | | 48,470 | | 48,470 |
| Foundation contributions | | 10,150 | | 10,150 |
| Expenditures for restricted purposes | <u>162,134</u> | <u>(162,134)</u> | | |
| Increase (decrease) in net assets | <u>4,881,337</u> | <u>(103,514)</u> | <u>-</u> | <u>4,777,823</u> |
| NET ASSETS AT DECEMBER 31, 2003 | <u>27,029,459</u> | <u>932,846</u> | <u>500,000</u> | <u>28,462,305</u> |
| Net income | 5,480,080 | | | 5,480,080 |
| Contributions and other | | 20,403 | | 20,403 |
| Expenditures for restricted purposes | <u>9,221</u> | <u>(9,221)</u> | | |
| Increase in net assets | <u>5,489,301</u> | <u>11,182</u> | <u>-</u> | <u>5,500,483</u> |
| NET ASSETS AT DECEMBER 31, 2004 | <u><u>\$ 32,518,760</u></u> | <u><u>\$ 944,028</u></u> | <u><u>\$ 500,000</u></u> | <u><u>\$ 33,962,788</u></u> |

See accompanying notes.

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004, 2003 and 2002**

| | 2004 | 2003 | 2002 |
|---|-----------------------------|----------------------------|----------------------------|
| OPERATING ACTIVITIES | | | |
| Increase in net assets | \$ 5,500,483 | \$ 4,777,823 | \$ 830,261 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | | |
| Amortization | 36,000 | 15,000 | 15,000 |
| Depreciation | 2,699,489 | 2,659,589 | 2,295,892 |
| Loss on property disposals | 150,591 | 22,057 | |
| Income from annuity terminations | (15,061) | (279,428) | (6,874) |
| Entrance fees received | 7,045,150 | 3,683,566 | 6,360,117 |
| Entrance fee amortization | (3,332,818) | (3,169,203) | (2,351,522) |
| Refund of entrance fees and other | (669,122) | (665,486) | (553,101) |
| (Increase) decrease in certain current assets: | | | |
| Resident and patient accounts receivable | (108,661) | 311,049 | (449,491) |
| Pledges receivable | 12,636 | | (1,000) |
| Inventories, prepaid expenses and other receivables | (58,251) | (135,742) | 790,997 |
| Beneficial interest in trusts | (13,000) | (61,000) | 91,000 |
| Designated cash | (110,480) | (84,177) | (79,406) |
| Increase (decrease) in certain current liabilities: | | | |
| Accounts payable | (422,435) | 67,253 | (663,624) |
| Salaries, wages and related liabilities | 368,466 | 34,845 | 176,748 |
| Net Cash Provided by Operating Activities | <u>11,082,987</u> | <u>7,176,146</u> | <u>6,454,997</u> |
| INVESTING ACTIVITIES | | | |
| (Increase) decrease in escrow funds | (30,345) | 3,128,870 | 8,298,983 |
| Purchases of property and equipment | (4,174,901) | (2,954,134) | (7,734,506) |
| Net transfers (to) short-term investments | (4,261,910) | (7,752,596) | (4,192,201) |
| Annuities sold | 36,750 | 40,000 | 120,000 |
| Annuity payments | (30,529) | (81,509) | (90,380) |
| Collections on loan receivable | 32,358 | 29,221 | 27,022 |
| Net Cash (Used) by Investing Activities | <u>(8,428,577)</u> | <u>(7,590,148)</u> | <u>(3,571,082)</u> |
| FINANCING ACTIVITIES | | | |
| Payment of financing costs | | (4,325) | (7,000) |
| Principal payments on long-term debt | (525,000) | (500,000) | (475,000) |
| Net Cash (Used) by Financing Activities | <u>(525,000)</u> | <u>(504,325)</u> | <u>(482,000)</u> |
| NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS | 2,129,410 | (918,327) | 2,401,915 |
| CASH AND EQUIVALENTS | | | |
| Beginning of Year | <u>8,597,591</u> | <u>9,515,918</u> | <u>7,114,003</u> |
| End of Year | <u><u>\$ 10,727,001</u></u> | <u><u>\$ 8,597,591</u></u> | <u><u>\$ 9,515,918</u></u> |
| SUPPLEMENTAL DISCLOSURES | | | |
| Interest paid (including \$97,500, \$14,400, and \$223,295 capitalized during construction in 2004, 2003, and 2002, respectively) | \$ 256,281 | \$ 305,426 | \$ 417,503 |
| Payments made on interest rate swap | 538,903 | 719,986 | 629,218 |

See accompanying notes.

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Combined Financial Statements: The accompanying combined financial statements include the accounts of Baptist Homes of Indiana, Inc. (the "Organization") and Baptist Homes of Indiana Foundation, Inc. (the "Foundation"). The entities are controlled by common management, therefore combined financial statements have been presented. All significant inter-company transactions and balances have been eliminated from the combined financial statements.

Baptist Homes of Indiana, Inc. is a not-for-profit corporation that provides residential, certain health care and other related services to individuals pursuant to the terms of continuing care agreements. The Organization owns and operates three continuing care retirement communities located in the State of Indiana: Hoosier Village Retirement Center, The Towne House Retirement Community and Four Seasons Retirement Center. The Organization also serves as the managing agent for two apartment rental facilities (Hoosier Manor, Inc. and Four Seasons Villas, Inc.) for the elderly and persons needing the features of a specially designed unit.

The Organization's primary purpose is to enhance the quality of life of older adults within a secure environment which supports their needs, values, interests and independence while encouraging personal and spiritual development. Only those activities directly associated with the provision of continuing care services to the elderly are considered to be unrestricted operating activities. Other unrestricted activities that result in gains and losses, are considered to be nonoperating and include earnings from investments and gains and losses on property disposals. A majority of all fundraising activities is conducted by the Foundation (see below) and, accordingly, any contributions are reported as nonoperating gains. Included in net income are all changes in unrestricted net assets other than equity transfers to related organizations, contributions of long-lived assets and investment returns restricted by donors.

The Foundation is a not-for-profit corporation engaged in fundraising activities for promoting the welfare of the Organization, which provides certain administrative support for the Foundation.

Charity Care and Community Benefit: The Organization continues to provide services to those residents who have exhausted their resources, and classifies these services as charity care in accordance with certain established policies of the Organization. The policies define charity services as those services for which no payment is anticipated. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are not reported as revenue. The amount of charity charges foregone for services totaled \$769,344 in 2004, \$632,138 in 2003 and \$637,395 in 2002.

Consistent with its mission, quality and vision statements, the Organization is committed to providing programs, services and contributions (both inkind and financial) that target the elderly at its communities, and benefit the elderly in the broader community. The provision of leadership for community-wide efforts to enhance elderly health status further evidences the Organization's social accountability to the communities it serves.

The Organization provides programs and services to address needs of those in the community, generally at no or low cost to those being served. Such services would include, but are not limited to educational programs, transportation, church relations and educational scholarship programs for employees, all targeted towards enhancing the quality of life of older adults. In addition to the charity care, the Organization provided approximately \$75,000 in 2004, \$67,000 in 2003 and \$106,000 in 2002, for such community services. The cost of these programs and services is included in operating expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates: Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Equivalents: For purposes of the statement of cash flows, cash equivalents may include bank time deposit, money market fund shares and all debt instruments with original maturities of ninety days or less. Cash is maintained in bank deposit accounts which, at times, may exceed federally insured limits. There have been no losses in such accounts.

Investments are carried at fair value. Donated investments are recorded at fair value at the date of receipt. Investment income and realized gains and losses on sales of unrestricted net assets are recorded as nonoperating investment income.

Investments include corporate obligations, mutual fund and marketable equity securities. Fair values for investments are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Entrance Fees and Resident Services: Occupancy agreements allow for a continuing care contract or for month-to-month rental. Pursuant to the continuing care contract, entrance fees are generally required prior to occupancy. Monthly maintenance fees are required for all residents. Certain contracts further provide that the resident whose funds are exhausted may remain in the facility until death. Most of the resident fee (90%) is refundable on a pro-rata basis within the first 48 months of occupancy upon the death or transfer of the resident or with 30 days written notice. Contractual refund obligations, assuming all contracts were terminated, approximated \$9,599,719 and \$7,789,211 at December 31, 2004 and 2003, respectively. Contracts generally provide for the availability of the residence and for the availability of certain health care service that may be required by the resident.

Entrance fees are initially recorded as deferred revenue. At the time of admission, the fees are amortized and recognized as revenue over the estimated life expectancy of each resident as determined by published mortality tables. Any unrecognized entrance fee revenue, net of any refund owed, at the date of death or vacancy is recorded as revenue at such date.

Residents in retirement facilities are charged a processing fee upon admission and are billed for services, including ancillary services, on a monthly basis. These resident services are recorded as revenue and accounts receivable at net realizable value when the service is performed.

A reconciliation of the amount of services provided to residents at established rates to the amount of net resident services and other related revenue as presented in the statements of operations is as follows:

| | 2004 | 2003 | 2002 |
|---|---------------------|---------------------|---------------------|
| Resident services and other related revenue | \$25,279,147 | \$23,730,626 | \$22,784,385 |
| Less: Charity care charges foregone | 721,844 | 598,638 | 603,301 |
| Contractual allowances | 544,864 | 455,071 | 372,765 |
| Other | <u>47,500</u> | <u>33,500</u> | <u>34,094</u> |
| Net Resident Services and Other Related Revenue | <u>\$23,964,939</u> | <u>\$22,643,417</u> | <u>\$21,774,225</u> |

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare Program: The Organization has an agreement with Medicare that provides for payments to the Organization in amounts different from its established rates. Net resident service revenue is reported at the estimated net realizable amounts for services rendered. Services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates per resident. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain services are based on fee schedules.

Services to Medicare patients at established rates approximated \$3,377,359 in 2004, \$2,249,332 in 2003 and \$2,498,838 in 2002. Net revenues from the Medicare program accounted for approximately 11% in 2004, 8% in 2003 and 10% in 2002 of the Organization's net resident services revenue.

Laws and regulations governing the Medicare program are complex and subject to interpretation. The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare program.

Receivables and Credit Policies: Accounts receivable are uncollateralized resident and patient obligations due under normal trade terms requiring payment within 30 days from the invoice date. Unpaid accounts do not bear interest. Account balances with invoices dated over 90 days old are considered delinquent. Payments of accounts receivable are allocated to the specific invoices identified on the remittance advice or, if unspecified, are applied to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from invoice date and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balances that will not be collected.

Obligation to Provide Future Services: The Organization annually calculates the present value of the estimated net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 8% based on the expected long-term rate of return on certain U.S. Government obligations. No liability was required to be recorded at December 31, 2004 and 2003.

Inventories, as determined by physical count, are stated at cost (first-in, first-out method) and are not in excess of market value.

Property and Equipment are recorded on the basis of cost or at fair market value at date of gift, if donated, adjusted for impairments in value that are deemed to be other than temporary. Depreciation is provided using the straight-line method over the expected useful lives of the assets. Useful lives range from 4 to 40 years.

The Organization and Foundation continually evaluate whether events and circumstances have occurred that indicate the remaining estimated useful lives of their property and equipment may warrant revision or that the remaining balance may not be recoverable. When factors indicate that an asset should be evaluated for possible impairment, the Companies estimate the undiscounted net income over the remaining life of the asset to measure whether the cost of the asset is recoverable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily and Permanently Restricted Net Assets are those assets whose use has been limited by donors primarily for capital projects or a specified time period or purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in unrestricted net assets as net assets released from restriction. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Pledges Receivable: The Foundation recognizes pledges as contribution revenue in the period designated by the donor or when the project or activity designated has commenced. Pledges receivable are reduced by an estimated allowance for uncollectible pledges.

Deferred Financing Costs of \$584,220, incurred in connection with the bond issuance, are being amortized on the straight-line method over the term of the bonds. Accumulated amortization was \$86,683 and \$50,683 at December 31, 2004 and 2003, respectively. Expected amortization in each of the next five years is \$36,000.

Beneficial Interest in Trusts: The Foundation is the beneficiary of three charitable remainder unitrusts. The present value of the estimated fair market value of the future payments has been recorded as an other asset on the combined balance sheets.

Annuity Obligation: In exchange for contributions from certain donors, the Foundation has committed to pay these donors a fixed annual amount for the remainder of their lives. The annuity obligation represents the present value of estimated future payments to these donors. The estimated life expectancy of donors utilized to estimate future payments is determined annually from published mortality tables. The discount rate used in determining the present value of the annuity obligation was 8%. Interest on annuity obligations represents the annual annuity payment less the current year change in annuity obligation due to the annual payments and deaths.

Loan Receivable: During 2001, the Foundation loaned the Indiana Association of Homes and Services for the Aging, Inc. (IAHSA) \$205,000. This loan is payable over seven years at 7.85%. At December 31, 2004 and 2003, the balance of this loan was \$114,864 and \$147,221, respectively.

Escrow Funds are proceeds of the 2000 debt issuance required to be held for debt service and interest, letter of credit fees, and as a project fund until qualifying capital expenditures have been made.

Designated Cash is for the payment of deferred compensation (See Note 5).

Interest Rate Swap/Collar Agreement: The Organization entered into an interest rate swap agreement to modify interest rates on outstanding debt. The net interest expenditures resulting from this agreement are recorded in the financial statements.

Contributions are recorded at the fair market value less, if applicable, the present value of estimated future payments for annuity obligations.

Income Taxes: The Organization and Foundation are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code ("Code"). Accordingly, no provision for income taxes has been made in the accompanying combined financial statements.

Reclassifications: Certain amounts in the 2003 and 2002 combined financial statements have been reclassified to conform to the 2004 presentation.

NOTE 2 - FUNCTIONAL EXPENSES

The Organization provides general services and health care services to the elderly in the communities it serves. Costs related to providing these services were \$23,813,263 in 2004, \$23,022,964 in 2003 and \$21,822,948 in 2002. General and administrative expenses, including certain interest expense, were \$2,359,296 in 2004, \$2,452,796 in 2003 and \$2,133,170 in 2002.

The Foundation pursues fundraising activities for promoting the welfare of the Organization which provides general services and health care services to the elderly in the communities it serves. Costs related to providing these fundraising activities and charitable grants disbursed were \$106,011 in 2004, \$275,478 in 2003 and \$163,128 in 2002. General and administrative expenses were \$73,325 in 2004, \$52,449 in 2003 and \$54,946 in 2002.

NOTE 3 - INVESTMENTS AND INVESTMENT INCOME

The composition of short-term investments, which are reported at fair value, was as follows at December 31, 2004 and 2003:

| | 2004 | | 2003 | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Fair Value | Cost | Fair Value | Cost |
| Baptist Homes of Indiana Foundation, Inc.: | | | | |
| Corporate obligations | \$ 1,145,249 | \$ 1,157,295 | \$ 986,982 | \$ 982,403 |
| Marketable equity securities | 1,811,575 | 1,441,012 | 1,594,337 | 1,349,777 |
| Mutual Funds | 329,372 | 319,035 | | |
| | <u>3,286,196</u> | <u>2,917,342</u> | <u>2,581,319</u> | <u>2,332,180</u> |
| Baptist Homes of Indiana, Inc.: | | | | |
| Corporate obligations | 9,523,600 | 9,797,376 | 6,532,143 | 6,515,386 |
| Marketable equity securities | 5,578,631 | 4,446,554 | 4,080,077 | 3,581,071 |
| Mutual funds | 6,672,308 | 5,470,260 | 7,605,286 | 6,951,662 |
| | <u>21,774,539</u> | <u>19,714,190</u> | <u>18,217,506</u> | <u>17,048,119</u> |
| Total Investments | <u>\$25,060,735</u> | <u>\$22,631,532</u> | <u>\$20,798,825</u> | <u>\$19,380,299</u> |

Investment income (loss) each year was comprised of:

| | 2004 | 2003 | 2002 |
|----------------------------------|--------------------|--------------------|--------------------|
| Interest and dividends | \$ 881,957 | \$ 667,074 | \$ 649,346 |
| Realized gains (losses) on sales | 178,142 | (97,775) | (674,431) |
| Unrealized gains (losses) | <u>1,040,512</u> | <u>1,859,225</u> | <u>(468,856)</u> |
| Total Investment Income (Loss) | <u>\$2,100,611</u> | <u>\$2,428,524</u> | <u>\$(493,941)</u> |

NOTE 4 - DEBT AND OTHER COMMITMENTS

Long-term debt consisted of tax exempt bonds as follows at December 31, 2004 and 2003:

| | 2004 | 2003 |
|--|---------------------|---------------------|
| Indiana Health Facility Financing Authority Variable Rate Revenue Bonds, Series 2002, principal payable annually on November 1 through 2030. Interest is paid monthly under an interest rate swap agreement (see below) and was 3.5% at December 31, 2004. | \$28,235,000 | \$28,760,000 |
| Less: Current portion | <u>555,000</u> | <u>525,000</u> |
| Total Long-term Debt | <u>\$27,680,000</u> | <u>\$28,235,000</u> |

At December 31, 2004, aggregate maturities of long-term debt for the next five years are as follows:

| Payable In | Principal |
|------------|-----------|
| 2005 | \$555,000 |
| 2006 | 580,000 |
| 2007 | 610,000 |
| 2008 | 640,000 |
| 2009 | 675,000 |

In November 2000, the Organization issued \$29,735,000 of Series 2000 adjustable rate, tax-exempt revenue bonds. The proceeds were utilized to reimburse and finance all or a portion of construction, including repayment of amounts borrowed pursuant to the Series 1995 Bonds and a line of credit, and to pay certain costs of issuance of the bonds. The Organization is required to maintain an irrevocable letter of credit equal to the amount of the outstanding aggregate principal and a portion of the interest of bonds. As provided in the bond agreements, the interest rate determination is subject to conversion, as elected by the Organization, to various interest modes which determine the frequency, date, and calculation of interest payments.

In December 2000, the Organization entered into a five-year interest rate swap agreement for its \$29,735,000 variable-rate Series 2000 tax-exempt revenue bonds. Based on the swap agreement, the Organization owes interest calculated at a collared variable rate of 3.5% to 7.0% to the counterparty to the swap. In return, the counterparty owes the Organization interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The Organization continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement the Organization effectively pays a variable rate on the debt that cannot go below 3.50% or above 7.00%. The debt service requirements to maturity for these bonds are based on that rate. The Organization will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the Organization's making or receiving a termination payment.

Costs incurred due to interest rates being below the 3.50% collar floor were \$538,903 for 2004, \$719,986 for 2003, and \$629,218 for 2002. For the estimated present value of payments that will be required to be paid under the swap agreement due to the variable interest rate of the bonds being below the 3.50% floor, an estimated liability of \$200,000 and \$320,000 was recorded at December 31, 2004 and 2003, respectively.

NOTE 4 - DEBT AND OTHER COMMITMENTS (CONTINUED)

In February 1998, the Organization entered into an agreement to lease a building to The Indiana Association of Homes and Services for the Aging, Inc. (IAHSA). In lieu of rent during the original term of the lease, IAHSA agreed to make capital investment in the building for repairs, renovations and enhancements. IAHSA entered into a \$160,000 bank promissory note to fund the renovations. The bank promissory note has been guaranteed by the Organization.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Organization is the managing agent of Hoosier Manor, Inc., and is also the co-sponsor and managing agent of Four Seasons Villas, Inc. Management fees earned from these facilities approximated \$58,403 in 2004, \$50,686 in 2003, and \$55,560 in 2002. These not-for-profit corporations are required to be operated as independent separate corporations by the United States Department of Housing and Urban Development, which provided financing for these residential housing facilities. The Board of Directors of these two entities include certain members of the Organization's Board of directors; however, the Organization does not control these related entities, and therefore, these two entities are not included in the accompanying combined financial statements.

The Organization has made working capital advances to these corporations. The advances do not bear interest and are due on demand. The outstanding balance of these advances was \$105,135 at December 31, 2004 and 2003.

Summary financial information for these related entities is as follows:

| | 2004 | | 2003 | |
|--|---------------------------|------------------------------------|---------------------------|------------------------------------|
| | Hoosier Manor, Inc. | Four Seasons Villas, Inc. | Hoosier Manor, Inc. | Four Seasons Villas, Inc. |
| Current and restricted assets | \$ 175,149 | \$1,291,239 | \$ 160,228 | \$1,310,816 |
| Property and equipment, less accumulated depreciation | <u>1,855,344</u> | <u>1,638,265</u> | <u>1,902,273</u> | <u>1,699,683</u> |
| Total Assets | <u>\$2,030,493</u> | <u>\$2,929,504</u> | <u>\$2,062,501</u> | <u>\$3,010,499</u> |
| Current liabilities | \$ 194,189 | \$ 112,469 | \$ 196,342 | \$ 119,390 |
| Long-term debt | 2,578,701 | 2,349,754 | 2,631,079 | 2,392,767 |
| Net assets (deficiency) | <u>(742,397)</u> | <u>467,281</u> | <u>(764,920)</u> | <u>498,342</u> |
| Total Liabilities and Net Assets | <u>\$2,030,493</u> | <u>\$2,929,504</u> | <u>\$2,062,501</u> | <u>\$3,010,499</u> |
| Net assets (deficiency) at beginning of year | \$ (764,920) | \$ 498,342 | \$ (746,081) | \$ 543,898 |
| Rental and other revenue | 669,311 | 510,261 | 617,369 | 509,760 |
| Rental and other expense | <u>(646,788)</u> | <u>(541,322)</u> | <u>(636,208)</u> | <u>(555,316)</u> |
| Net Assets (Deficiency) at End of Year | <u>\$ (742,397)</u> | <u>\$ 467,281</u> | <u>\$ (764,920)</u> | <u>\$ 498,342</u> |

NOTE 6 - RETIREMENT PLANS

The Organization has a noncontributory defined contribution retirement plan covering substantially all of its employees. The Organization annually contributes a percentage of each eligible employee's annual compensation to the Plan. The Organization's contributions are invested in an annuity contract provided by an insurance company to fund retirement benefits to employees.

The Organization also has a deferred compensation plan for its executive employees. Each covered employee must remain employed with the Organization through his/her 65th birthday, or earlier death or disability, to receive the benefit. The expense each year has matched the contribution to a designated cash account, which with estimated earnings and annual contributions through the dates of retirement will be used to pay the deferred compensation. The balance of the designated cash account was \$352,564 and \$242,084 at December 31, 2004 and 2003, respectively.

Retirement plan expenses were \$482,510 in 2004, \$603,186 in 2003 and \$587,831 in 2002.

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*Independent Auditors' Report
on Combining Information*

Board of Directors
Baptist Homes of Indiana, Inc.
and Baptist Homes of Indiana Foundation, Inc.

Our report on our audits of the basic combined financial statements of Baptist Homes of Indiana, Inc. and Baptist Homes of Indiana Foundation, Inc. for 2004, 2003 and 2002 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying combining information is presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
March 11, 2005

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINING SCHEDULE-BALANCE SHEET INFORMATION
December 31, 2004**

ASSETS

| | Baptist Homes of Indiana, Inc. | Baptist Homes of Indiana Foundation, Inc. | Eliminations | Combined |
|--|---|--|---------------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash and equivalents | \$ 9,697,301 | \$ 1,029,700 | | \$ 10,727,001 |
| Short-term investments | 21,774,539 | 3,286,196 | | 25,060,735 |
| Resident and patient receivables, net | 963,261 | | | 963,261 |
| Pledges receivable | 512 | | | 512 |
| Inventories | 118,978 | | | 118,978 |
| Prepaid expenses and other receivables | 536,075 | | | 536,075 |
| Total Current Assets | <u>33,090,666</u> | <u>4,315,896</u> | <u>-</u> | <u>37,406,562</u> |
| PROPERTY AND EQUIPMENT | | | | |
| Land | 486,934 | | | 486,934 |
| Land improvements | 4,959,766 | | | 4,959,766 |
| Buildings and improvements | 56,100,636 | | | 56,100,636 |
| Furniture and equipment | 8,425,712 | | | 8,425,712 |
| Automobiles | 586,071 | 182,587 | | 768,658 |
| Construction-in-progress | 306,637 | | | 306,637 |
| | <u>70,865,756</u> | <u>182,587</u> | | <u>71,048,343</u> |
| Less: Allowance for depreciation | 25,416,332 | | | 25,416,332 |
| Total Property and Equipment | <u>45,449,424</u> | <u>182,587</u> | | <u>45,632,011</u> |
| OTHER ASSETS | | | | |
| Beneficial interest in trusts | | 406,000 | | 406,000 |
| Loan receivable | | 114,863 | | 114,863 |
| Deferred financing costs, net | 497,537 | | | 497,537 |
| Designated cash-deferred compensation | 352,564 | | | 352,564 |
| Escrow funds | 2,995,618 | | | 2,995,618 |
| Total Other Assets | <u>3,845,719</u> | <u>520,863</u> | | <u>4,366,582</u> |
| TOTAL ASSETS | <u>\$ 82,385,809</u> | <u>\$ 5,019,346</u> | <u>\$ -</u> | <u>\$ 87,405,155</u> |

LIABILITIES AND NET ASSETS

| | | | | |
|---|----------------------|---------------------|-------------|----------------------|
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 956,548 | | | \$ 956,548 |
| Salaries, wages and related liabilities | 2,227,083 | | | 2,227,083 |
| Interest rate swap costs payable | 200,000 | | | 200,000 |
| Estimated refundable entrance fees | 420,000 | | | 420,000 |
| Annuity obligations | | \$ 160,556 | | 160,556 |
| Current portion of long-term debt | 555,000 | | | 555,000 |
| Total Current Liabilities | <u>4,358,631</u> | <u>160,556</u> | <u>-</u> | <u>4,519,187</u> |
| DEFERRED REVENUE | | | | |
| Entrance fees from residents, less current portion of estimated refundable | 21,061,889 | | | 21,061,889 |
| Entrance fees from applicants | 181,291 | | | 181,291 |
| Total Deferred Revenue | <u>21,243,180</u> | | | <u>21,243,180</u> |
| LONG-TERM DEBT, less current portion | <u>27,680,000</u> | | | <u>27,680,000</u> |
| Total Liabilities | <u>53,281,811</u> | <u>160,556</u> | <u>-</u> | <u>53,442,367</u> |
| NET ASSETS | | | | |
| Unrestricted | 28,847,329 | 3,671,431 | | 32,518,760 |
| Temporarily restricted | 256,669 | 687,359 | | 944,028 |
| Permanently restricted | | 500,000 | | 500,000 |
| Total Net Assets | <u>29,103,998</u> | <u>4,858,790</u> | | <u>33,962,788</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 82,385,809</u> | <u>\$ 5,019,346</u> | <u>\$ -</u> | <u>\$ 87,405,155</u> |

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINING SCHEDULE-BALANCE SHEET INFORMATION
December 31, 2003**

ASSETS

| | Baptist Homes of Indiana, Inc. | Baptist Homes of Indiana Foundation, Inc. | Eliminations | Combined |
|--|---|--|---------------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash and equivalents | \$ 7,844,297 | \$ 753,294 | | \$ 8,597,591 |
| Short-term investments | 18,217,506 | 2,581,319 | | 20,798,825 |
| Resident and patient receivables, net | 854,600 | | | 854,600 |
| Pledges receivable | 146,124 | 13,148 | \$ (146,124) | 13,148 |
| Inventories | 124,623 | | | 124,623 |
| Prepaid expenses and other receivables | 472,179 | | | 472,179 |
| Total Current Assets | <u>27,659,329</u> | <u>3,347,761</u> | <u>(146,124)</u> | <u>30,860,966</u> |
| PROPERTY AND EQUIPMENT | | | | |
| Land | 486,304 | | | 486,304 |
| Land improvements | 4,439,876 | | | 4,439,876 |
| Buildings and improvements | 52,996,596 | | | 52,996,596 |
| Furniture and equipment | 10,772,448 | | | 10,772,448 |
| Automobiles | 698,647 | | | 698,647 |
| Construction-in-progress | 1,965,063 | | | 1,965,063 |
| | <u>71,358,934</u> | | | <u>71,358,934</u> |
| Less: Allowance for depreciation | 27,051,744 | | | 27,051,744 |
| Total Property and Equipment | <u>44,307,190</u> | | | <u>44,307,190</u> |
| OTHER ASSETS | | | | |
| Beneficial interest in trusts | | 393,000 | | 393,000 |
| Loan receivable | | 147,221 | | 147,221 |
| Deferred financing costs, net | 533,537 | | | 533,537 |
| Designated cash-deferred compensation | 242,084 | | | 242,084 |
| Escrow funds | 2,965,273 | | | 2,965,273 |
| Total Other Assets | <u>3,740,894</u> | <u>540,221</u> | | <u>4,281,115</u> |
| TOTAL ASSETS | <u>\$ 75,707,413</u> | <u>\$ 3,887,982</u> | <u>\$ (146,124)</u> | <u>\$ 79,449,271</u> |

LIABILITIES AND NET ASSETS

| | | | | |
|---|----------------------|---------------------|---------------------|----------------------|
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 1,377,066 | \$ 148,041 | \$ (146,124) | \$ 1,378,983 |
| Salaries, wages and related liabilities | 1,858,617 | | | 1,858,617 |
| Interest rate swap costs payable | 320,000 | | | 320,000 |
| Estimated refundable entrance fees | 420,000 | | | 420,000 |
| Annuity obligations | | 175,617 | | 175,617 |
| Current portion of long-term debt | 525,000 | | | 525,000 |
| Total Current Liabilities | <u>4,500,683</u> | <u>323,658</u> | <u>(146,124)</u> | <u>4,678,217</u> |
| DEFERRED REVENUE | | | | |
| Entrance fees from residents, less current portion of estimated refundable | 17,827,199 | | | 17,827,199 |
| Entrance fees from applicants | 246,550 | | | 246,550 |
| Total Deferred Revenue | <u>18,073,749</u> | | | <u>18,073,749</u> |
| LONG-TERM DEBT, less current portion | <u>28,235,000</u> | | | <u>28,235,000</u> |
| Total Liabilities | <u>50,809,432</u> | <u>323,658</u> | <u>(146,124)</u> | <u>50,986,966</u> |
| NET ASSETS | | | | |
| Unrestricted | 24,652,494 | 2,376,965 | | 27,029,459 |
| Temporarily restricted | 245,487 | 687,359 | | 932,846 |
| Permanently restricted | | 500,000 | | 500,000 |
| Total Net Assets | <u>24,897,981</u> | <u>3,564,324</u> | | <u>28,462,305</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 75,707,413</u> | <u>\$ 3,887,982</u> | <u>\$ (146,124)</u> | <u>\$ 79,449,271</u> |

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINING SCHEDULE-STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
Year Ended December 31, 2004**

| | Hoosier Village Retirement Center | The Towne House Retirement Community | Four Seasons Retirement Center | Corporate Office |
|---|--|---|---|-----------------------------|
| OPERATING REVENUE | | | | |
| Net resident services and other related revenue | \$ 7,948,534 | \$ 8,831,803 | \$ 7,232,102 | |
| Entrance fee amortization | 1,095,794 | 1,239,885 | 997,139 | |
| Contributions | 1,951 | 7,045 | | |
| Other | 428,510 | 639,339 | 255,399 | |
| Total Operating Revenue | <u>9,474,789</u> | <u>10,718,072</u> | <u>8,484,640</u> | |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 3,582,746 | 4,345,557 | 3,475,020 | \$ 836,098 |
| Employee benefits | 912,342 | 1,044,204 | 896,108 | 248,518 |
| Contracts, rents and services | 627,841 | 475,659 | 442,839 | |
| Food and supplies | 733,900 | 725,930 | 864,975 | 72,873 |
| Repairs and maintenance | 110,682 | 218,322 | 149,031 | 103,941 |
| Utilities | 345,467 | 483,015 | 279,416 | 6,704 |
| Depreciation | 919,452 | 940,958 | 643,279 | 195,800 |
| Insurance | 220,313 | 221,459 | 181,366 | |
| Annuity obligation disbursements | | | | |
| Corporate office charges | 578,903 | 578,903 | 472,906 | |
| Professional and administrative expenses | 115,346 | 164,701 | 109,848 | |
| Travel | 13,047 | 13,779 | 12,624 | 24,827 |
| Charitable grants disbursed | | | | |
| Other | 60,312 | 56,202 | 27,515 | 174,035 |
| Total Operating Expenses | <u>8,220,351</u> | <u>9,268,689</u> | <u>7,554,927</u> | <u>1,662,796</u> |
| Income (Loss) from Operations | <u>1,254,438</u> | <u>1,449,383</u> | <u>929,713</u> | <u>(1,662,796)</u> |
| NONOPERATING GAINS (LOSSES) | | | | |
| Investment income | | | | 1,764,207 |
| Interest expense | (141,996) | (142,008) | (116,004) | (696,500) |
| Other | | | | (83,535) |
| Total Nonoperating Gains (Losses) | <u>(141,996)</u> | <u>(142,008)</u> | <u>(116,004)</u> | <u>984,172</u> |
| NET INCOME (LOSS) | 1,112,442 | 1,307,375 | 813,709 | (678,624) |
| FUNDS RELEASED FROM RESTRICTION | 4,312 | 4,909 | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | <u>\$ 1,116,754</u> | <u>\$ 1,312,284</u> | <u>\$ 813,709</u> | <u>\$ (678,624)</u> |
| UNRESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Contributions | \$ 4,312 | \$ 4,909 | | \$ 11,182 |
| FUNDS RELEASED FROM RESTRICTION | (4,312) | (4,909) | | |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 11,182</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |
| PERMANENTLY RESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |

| Eliminations | Facility Total | Baptist Homes of Indiana Foundation, Inc. | Eliminations | Combined |
|---------------------|---------------------------|--|---------------------|----------------------|
| | \$ 24,012,439 | | \$ (47,500) | \$ 23,964,939 |
| | 3,332,818 | | | 3,332,818 |
| | 8,996 | \$ 1,137,398 | | 1,146,394 |
| | <u>1,323,248</u> | | | <u>1,323,248</u> |
| | <u>28,677,501</u> | <u>1,137,398</u> | <u>(47,500)</u> | <u>29,767,399</u> |
| | 12,239,421 | | | 12,239,421 |
| | 3,101,172 | | | 3,101,172 |
| | 1,546,339 | | | 1,546,339 |
| | 2,397,678 | | | 2,397,678 |
| | 581,976 | | | 581,976 |
| | 1,114,602 | | | 1,114,602 |
| | 2,699,489 | | | 2,699,489 |
| | 623,138 | | | 623,138 |
| | | 30,529 | | 30,529 |
| \$ (1,630,712) | 389,895 | 30,036 | | 419,931 |
| | 64,277 | | | 64,277 |
| | | 75,482 | (47,500) | 27,982 |
| | <u>318,064</u> | <u>43,289</u> | | <u>361,353</u> |
| <u>(1,630,712)</u> | <u>25,076,051</u> | <u>179,336</u> | <u>(47,500)</u> | <u>25,207,887</u> |
| <u>1,630,712</u> | <u>3,601,450</u> | <u>958,062</u> | <u>-</u> | <u>4,559,512</u> |
| | 1,764,207 | 336,404 | | 2,100,611 |
| | (1,096,508) | | | (1,096,508) |
| | <u>(83,535)</u> | | | <u>(83,535)</u> |
| <u>-</u> | <u>584,164</u> | <u>336,404</u> | <u>-</u> | <u>920,568</u> |
| 1,630,712 | 4,185,614 | 1,294,466 | | 5,480,080 |
| | <u>9,221</u> | | <u>-</u> | <u>9,221</u> |
| <u>\$ 1,630,712</u> | <u>4,194,835</u> | <u>1,294,466</u> | <u>-</u> | <u>5,489,301</u> |
| | <u>24,652,494</u> | <u>2,376,965</u> | | <u>27,029,459</u> |
| | <u>\$ 28,847,329</u> | <u>\$ 3,671,431</u> | <u>\$ -</u> | <u>\$ 32,518,760</u> |
| | \$ 20,403 | | | \$ 20,403 |
| | <u>(9,221)</u> | | | <u>(9,221)</u> |
| | 11,182 | | | 11,182 |
| | <u>245,487</u> | <u>687,359</u> | | <u>932,846</u> |
| | <u>\$ 256,669</u> | <u>\$ 687,359</u> | | <u>\$ 944,028</u> |
| | | \$ 500,000 | | \$ 500,000 |
| | | <u>\$ 500,000</u> | | <u>\$ 500,000</u> |

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINING SCHEDULE-STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
Year Ended December 31, 2003**

| | Hoosier Village Retirement Center | The Towne House Retirement Community | Four Seasons Retirement Center | Corporate Office |
|---|--|---|---|-----------------------------|
| OPERATING REVENUE | | | | |
| Net resident services and other related revenue | \$ 7,588,080 | \$ 8,127,018 | \$ 6,961,819 | |
| Entrance fee amortization | 876,724 | 1,428,528 | 863,951 | |
| Contributions | 117,461 | | 28,688 | |
| Other | 383,932 | 654,530 | 276,111 | |
| Total Operating Revenue | <u>8,966,197</u> | <u>10,210,076</u> | <u>8,130,569</u> | |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 3,468,194 | 4,130,998 | 3,526,457 | \$ 869,387 |
| Employee benefits | 902,711 | 1,001,557 | 904,623 | 210,398 |
| Contracts, rents and services | 564,360 | 429,998 | 308,186 | |
| Food and supplies | 677,297 | 705,983 | 755,188 | 81,725 |
| Repairs and maintenance | 83,360 | 161,069 | 85,311 | 57,381 |
| Utilities | 342,229 | 485,038 | 280,133 | 9,471 |
| Depreciation | 912,395 | 940,395 | 629,793 | 177,006 |
| Insurance | 259,445 | 261,123 | 224,339 | |
| Annuity obligation disbursements | | | | |
| Corporate office charges | 568,283 | 568,283 | 464,230 | |
| Professional and administrative expenses | 112,080 | 150,450 | 104,971 | |
| Travel | 12,286 | 13,347 | 9,729 | 31,648 |
| Charitable grants disbursed | | | | |
| Other | 68,874 | 57,155 | 12,890 | 171,641 |
| Total Operating Expenses | <u>7,971,514</u> | <u>8,905,396</u> | <u>7,305,850</u> | <u>1,608,657</u> |
| Income (Loss) from Operations | <u>994,683</u> | <u>1,304,680</u> | <u>824,719</u> | <u>(1,608,657)</u> |
| NONOPERATING GAINS (LOSSES) | | | | |
| Investment income | | | | 2,004,556 |
| Interest expense | (155,004) | (153,996) | (132,000) | (844,139) |
| Other | | | | 110,933 |
| Total Nonoperating Gains (Losses) | <u>(155,004)</u> | <u>(153,996)</u> | <u>(132,000)</u> | <u>1,271,350</u> |
| NET INCOME (LOSS) | 839,679 | 1,150,684 | 692,719 | (337,307) |
| FUNDS RELEASED FROM RESTRICTION | <u>3,792</u> | <u>12,068</u> | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | <u>\$ 843,471</u> | <u>\$ 1,162,752</u> | <u>\$ 692,719</u> | <u>\$ (337,307)</u> |
| UNRESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Contributions | \$ 3,792 | \$ 12,068 | | \$ 32,610 |
| FUNDS RELEASED FROM RESTRICTION | <u>(3,792)</u> | <u>(12,068)</u> | | |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 32,610</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |
| PERMANENTLY RESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |

| Eliminations | Facility Total | Baptist Homes of Indiana Foundation, Inc. | Eliminations | Combined |
|---------------------|----------------------|---|------------------|----------------------|
| | \$ 22,676,917 | | \$ (33,500) | \$ 22,643,417 |
| | 3,169,203 | | | 3,169,203 |
| | 146,149 | \$ 676,591 | (146,124) | 676,616 |
| | <u>1,314,573</u> | | | <u>1,314,573</u> |
| | <u>27,306,842</u> | <u>676,591</u> | <u>(179,624)</u> | <u>27,803,809</u> |
| | 11,995,036 | | | 11,995,036 |
| | 3,019,289 | | | 3,019,289 |
| | 1,302,544 | | | 1,302,544 |
| | 2,220,193 | | | 2,220,193 |
| | 387,121 | | | 387,121 |
| | 1,116,871 | | | 1,116,871 |
| | 2,659,589 | | | 2,659,589 |
| | 744,907 | | | 744,907 |
| | | 81,509 | | 81,509 |
| \$ (1,600,796) | 367,501 | 43,656 | | 411,157 |
| | 67,010 | | | 67,010 |
| | | 193,969 | (179,624) | 14,345 |
| | <u>310,560</u> | <u>8,793</u> | | <u>319,353</u> |
| <u>(1,600,796)</u> | <u>24,190,621</u> | <u>327,927</u> | <u>(179,624)</u> | <u>24,338,924</u> |
| <u>1,600,796</u> | <u>3,116,221</u> | <u>348,664</u> | | <u>3,464,885</u> |
| | 2,004,556 | 423,968 | | 2,428,524 |
| | (1,285,139) | | | (1,285,139) |
| | <u>110,933</u> | | | <u>110,933</u> |
| <u>-</u> | <u>830,350</u> | <u>423,968</u> | <u>-</u> | <u>1,254,318</u> |
| 1,600,796 | 3,946,571 | 772,632 | | 4,719,203 |
| | <u>15,860</u> | <u>146,274</u> | | <u>162,134</u> |
| <u>\$ 1,600,796</u> | <u>3,962,431</u> | <u>918,906</u> | | <u>4,881,337</u> |
| | <u>20,690,063</u> | <u>1,458,059</u> | | <u>22,148,122</u> |
| | <u>\$ 24,652,494</u> | <u>\$ 2,376,965</u> | <u>\$ -</u> | <u>\$ 27,029,459</u> |
| | \$ 48,470 | \$ 10,150 | | \$ 58,620 |
| | <u>(15,860)</u> | <u>(146,274)</u> | | <u>(162,134)</u> |
| | 32,610 | (136,124) | | (103,514) |
| | <u>212,877</u> | <u>823,483</u> | | <u>1,036,360</u> |
| | <u>\$ 245,487</u> | <u>\$ 687,359</u> | | <u>\$ 932,846</u> |
| | | <u>\$ 500,000</u> | | <u>\$ 500,000</u> |
| | | <u>\$ 500,000</u> | | <u>\$ 500,000</u> |

**BAPTIST HOMES OF INDIANA, INC. AND
BAPTIST HOMES OF INDIANA FOUNDATION, INC.**

**COMBINING SCHEDULE-STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
Year Ended December 31, 2002**

| | Hoosier Village Retirement Center | The Towne House Retirement Community | Four Seasons Retirement Center | Corporate Office |
|---|--|---|---|-----------------------------|
| OPERATING REVENUE | | | | |
| Net resident services and other related revenue | \$ 7,485,547 | \$ 7,931,647 | \$ 6,391,125 | |
| Entrance fee amortization | 792,601 | 840,712 | 718,209 | |
| Contributions | | | | |
| Other | 410,876 | 414,238 | 265,421 | |
| Total Operating Revenue | <u>8,689,024</u> | <u>9,186,597</u> | <u>7,374,755</u> | |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 3,390,203 | 4,039,426 | 3,194,340 | \$ 807,157 |
| Employee benefits | 829,618 | 927,581 | 807,747 | 214,608 |
| Contracts, rents and services | 757,969 | 479,787 | 380,073 | |
| Food and supplies | 681,715 | 684,155 | 683,272 | 76,333 |
| Repairs and maintenance | 82,478 | 183,748 | 94,190 | 70,017 |
| Utilities | 330,605 | 416,308 | 267,555 | 8,506 |
| Depreciation | 915,700 | 694,289 | 559,819 | 126,084 |
| Insurance | 147,464 | 147,714 | 121,216 | |
| Annuity obligation disbursements | | | | |
| Corporate office charges | 527,662 | 527,662 | 431,048 | |
| Professional and administrative expenses | 127,498 | 146,703 | 114,964 | |
| Travel | 7,200 | 8,215 | 11,656 | 36,112 |
| Charitable grants disbursed | | | | |
| Other | 69,242 | 48,082 | 31,416 | 156,617 |
| Total Operating Expenses | <u>7,867,354</u> | <u>8,303,670</u> | <u>6,697,296</u> | <u>1,495,434</u> |
| Income (Loss) from Operations | <u>821,670</u> | <u>882,927</u> | <u>677,459</u> | <u>(1,495,434)</u> |
| NONOPERATING GAINS (LOSSES) | | | | |
| Investment (loss) | | | | (292,033) |
| Interest expense | (155,004) | (153,996) | (132,000) | (637,736) |
| Other | | | | 27,913 |
| Total Nonoperating Gains (Losses) | <u>(155,004)</u> | <u>(153,996)</u> | <u>(132,000)</u> | <u>(901,856)</u> |
| NET INCOME (LOSS) | 666,666 | 728,931 | 545,459 | (2,397,290) |
| FUNDS RELEASED FROM RESTRICTION | <u>9,469</u> | <u>6,186</u> | | |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | <u>\$ 676,135</u> | <u>\$ 735,117</u> | <u>\$ 545,459</u> | <u>\$ (2,397,290)</u> |
| UNRESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Contributions | \$ 9,469 | \$ 6,186 | \$ - | \$ 38,700 |
| FUNDS RELEASED FROM RESTRICTION | <u>(9,469)</u> | <u>(6,186)</u> | | |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,700</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |
| PERMANENTLY RESTRICTED NET ASSETS | | | | |
| Beginning of Year | | | | |
| End of Year | | | | |

| Eliminations | Facility Total | Baptist Homes of Indiana Foundation, Inc. | Eliminations | Combined |
|---------------------|----------------------|---|-----------------|----------------------|
| | \$ 21,808,319 | | \$ (34,094) | \$ 21,774,225 |
| | 2,351,522 | | | 2,351,522 |
| | | \$ 165,600 | | 165,600 |
| | 1,090,535 | | | 1,090,535 |
| | <u>25,250,376</u> | <u>165,600</u> | <u>(34,094)</u> | <u>25,381,882</u> |
| | 11,431,126 | | | 11,431,126 |
| | 2,779,554 | | | 2,779,554 |
| | 1,617,829 | | | 1,617,829 |
| | 2,125,475 | | | 2,125,475 |
| | 430,433 | | | 430,433 |
| | 1,022,974 | | | 1,022,974 |
| | 2,295,892 | | | 2,295,892 |
| | 416,394 | | | 416,394 |
| | | 94,460 | | 94,460 |
| \$ (1,486,372) | 389,165 | 50,014 | | 439,179 |
| | 63,183 | | | 63,183 |
| | | 68,668 | (34,094) | 34,574 |
| | 305,357 | 4,932 | | 310,289 |
| <u>(1,486,372)</u> | <u>22,877,382</u> | <u>218,074</u> | <u>(34,094)</u> | <u>23,061,362</u> |
| <u>1,486,372</u> | <u>2,372,994</u> | <u>(52,474)</u> | | <u>2,320,520</u> |
| | (292,033) | (201,908) | | (493,941) |
| | (1,078,736) | | | (1,078,736) |
| | 27,913 | | | 27,913 |
| <u>-</u> | <u>(1,342,856)</u> | <u>(201,908)</u> | <u>-</u> | <u>(1,544,764)</u> |
| 1,486,372 | 1,030,138 | (254,382) | | 775,756 |
| | 15,655 | 7,756 | | 23,411 |
| <u>\$ 1,486,372</u> | <u>1,045,793</u> | <u>(246,626)</u> | | <u>799,167</u> |
| | 19,644,270 | 1,704,685 | | 21,348,955 |
| | <u>\$ 20,690,063</u> | <u>\$ 1,458,059</u> | <u>\$ -</u> | <u>\$ 22,148,122</u> |
| | \$ 54,355 | \$ 150 | | \$ 54,505 |
| | <u>(15,655)</u> | <u>(7,756)</u> | | <u>(23,411)</u> |
| | 38,700 | (7,606) | | 31,094 |
| | 174,177 | 831,089 | | 1,005,266 |
| | <u>\$ 212,877</u> | <u>\$ 823,483</u> | | <u>\$ 1,036,360</u> |
| | | \$ 500,000 | | \$ 500,000 |
| | | \$ 500,000 | | \$ 500,000 |

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APPENDIX C

Summary of Principal Documents

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain terms and provisions of the Master Indenture, the Bond Indenture, the Supplemental Indenture, the Loan Agreement and the Mortgage, Security Agreement and Fixture Financing Statements. Such summary does not purport to be comprehensive, and reference should be made to each such instrument for more complete information. Copies of such instruments are available from the Bond Trustee upon request.

Definitions of Certain Terms

The following are definitions of certain terms used in this Official Statement, including Appendix C to this Official Statement.

"Accelerable Instrument" shall mean any Master Note or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness evidenced by a Master Note, which Master Note or instrument provides that, upon the occurrence of an event of default under such Master Note or instrument, the holder thereof may request that the Master Trustee declare such Master Note or Indebtedness due and payable prior to the date on which it would otherwise become due and payable.

"Act" shall mean Indiana Code 5-1-16 as heretofore and hereafter amended or supplemented.

"Additional Bonds" means one or more of Series of additional bonds authorized to be issued by the Authority pursuant to the terms of the Bond Indenture.

"Additional Indebtedness" shall mean Indebtedness incurred by any Members.

"Affiliate" shall mean a corporation, partnership, joint venture, association, business trust or similar entity (a) which controls, is controlled by or is under common control with, directly or indirectly, a Member; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the members of the Directing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Directing Body, by contract or otherwise. For the purposes of this definition, "*Directing Body*" means with respect to: (a) a corporation having stock, such corporation's board of directors and the owners, directly or indirectly, of more than 50% of the securities (as defined in Section 2(i) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporation's directors (both of which groups shall be considered a Directing Body); (b) a not for profit corporation not having

stock, such corporation's members if the members have complete discretion to elect the corporation's directors, or the corporation's directors if the corporation's members do not have such discretion; and (c) any other entity, its governing board or body. For the purposes of this definition, all references to directors and members shall be deemed to include all entities performing the function of directors or members however denominated.

"Authority" shall mean the Indiana Health and Educational Facility Financing Authority, a body politic and corporate created and existing under and by virtue of the Act, or any Authority succeeding to its rights and obligations under the Loan Agreement.

"Balloon Indebtedness" shall mean Long-Term Indebtedness, 25% or more of the original principal of which matures during any consecutive twelve-month period, if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment prior to such twelve-month period. Balloon Indebtedness does not include Indebtedness which otherwise would be classified under the Master Indenture as Put Indebtedness.

"Bond Counsel" shall mean Ice Miller, Indianapolis, Indiana, and its successors, or such other nationally recognized bond counsel as may be selected by the Corporation.

"Bond Fund" shall mean the Bond Fund created under the Bond Indenture.

"Bond Indenture" shall mean the Bond Trust Indenture relating to the Series 2005 Bonds between the Authority and the Bond Trustee, including any indentures supplemental thereto made in conformity therewith.

"Bond Trustee" shall mean Wells Fargo Bank, National Association being the registrar, a paying agent and the trustee under the Bond Indenture, or any successor corporate trustee.

"Bond Year" shall mean the initial period beginning on the closing date and ending November 15, 2006, and thereafter each one year period ending on November 16, or if earlier, the day on which all outstanding Bonds are retired.

"Bondholder" or "owner" or "holder" when used with respect to a Bond, shall mean the registered owner of any fully registered Bond under the Loan Agreement.

"Bondholder," "holder" or "owner of the Bonds" shall mean the registered owner of any Related Bond under the Master Indenture.

"Bonds" shall mean the Series 2005 Bonds and any Additional Bonds issued pursuant to the Bond Indenture.

"Book Value," when used with respect to Property of a Member, shall mean the value of such Property, net of accumulated depreciation and amortization, as reflected in the most recent audited financial statements of such Member which have been prepared in accordance with generally accepted accounting principles, and, when used with respect to Property of all Members, means the aggregate of the values of such Property, net of accumulated depreciation and amortization as reflected in the most recent audited combined financial statements of the

Obligated Group prepared in accordance with generally accepted accounting principles, provided that such aggregate shall be calculated in such a manner that no portion of the value of any Property of any Member is included more than once.

"Capitalized Lease" shall mean any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

"Capitalized Rentals" shall mean, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a capitalized lease order which a Person is a lessee would be reflected as a liability on the balance sheet of such Person.

"Code" shall mean the Internal Revenue Code of 1986, as amended, from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section.

"Commitment Indebtedness" shall mean the obligation of any Member to repay amounts disbursed pursuant to a commitment from a financial institution to refinance or purchase when due, when tendered or when required to be purchased (a) other Indebtedness of such Member, or (b) Indebtedness of a Person who is not a Member, which Indebtedness is guaranteed by a Guaranty of such Member or secured by or payable from amounts paid on Indebtedness of such Member, in either case which Indebtedness or Guaranty of such Member was incurred pursuant to the Master Indenture, and the obligation of any Member to pay interest payable on amounts disbursed for such purposes, plus any fees, costs or expenses payable to such financial institution for, under or in connection with such commitment, in the event of disbursement pursuant to such commitment or in connection with enforcement thereof, including without limitation, any penalties payable in the event of such enforcement.

"Completion Funded Indebtedness" shall mean any Funded Indebtedness for borrowed money: (a) incurred for the purpose of financing the completion of the acquisition, construction, remodeling, renovation or equipping of Facilities with respect to which Funded Indebtedness for borrowed money has been incurred in accordance with the provisions of the Master Indenture; and (b) with a principal amount not in excess of the amount which is required to provide a completed and equipped Facility of substantially the same type and scope contemplated at the time such prior Funded Indebtedness was originally incurred, to provide for Funded Interest during the period of construction, to provide any reserve fund relating to such Completion Funded Indebtedness and to pay the costs and expenses of issuing such Completion Funded Indebtedness.

"Construction Index" shall mean the most recent issue of the "Dodge Construction Index for U.S. and Canadian Cities" with reference to the city in which the subject property is located (or, if such Index is not available for such city, with reference to the city located closest geographically to the city in which the subject property is located), or, if such Index is no longer published or used by the federal government in measuring costs under Medicare or Medicaid programs, such other index which is certified to be comparable and appropriate by the Obligated Group Representative in an Officer's Certificate delivered to the Master Trustee and which other index is acceptable to the Master Trustee.

"Consultant" shall mean a professional consulting, accounting, investment banking or commercial banking firm selected by the Obligated Group Representative and not objected to by the Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable reputation for such skill and experience, which firm is not a Member of the Obligated Group, does not control any Member of the Obligated Group or any Affiliate thereof and is not controlled by or under common control with any Member of the Obligated Group or an Affiliate thereof.

"Contributions" shall mean the aggregate amount of all contributions, grants, gifts, bequests and devises actually received in cash or marketable securities by any Person in the applicable fiscal year of such Person and any such contributions, grants, gifts, bequests and devises originally received in a form other than cash or marketable securities by any Person which are converted in such fiscal year to cash or marketable securities. Contributions shall include payments received from any Affiliate of an Obligated Group Member.

"Corporation" shall mean Baptist Homes of Indiana, Inc., an Indiana nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Cross-over Date," with respect to Cross-over Refunding Indebtedness, shall mean the date on which the principal portion of the Cross-over Refunded Indebtedness is paid or redeemed, or on which it is anticipated that such principal portion will be paid or redeemed, from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" shall mean Indebtedness of a Person refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" shall mean Indebtedness of a Person issued for the purpose of refunding other Indebtedness of such Person if the proceeds of such Cross-over Refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable Cross-over Date of the Cross-over Refunded Indebtedness and earnings on such escrow deposit are required to be applied to pay interest or principal on either or both of such Cross-over Refunding Indebtedness or such Cross-over Refunded Indebtedness until the Cross-over Date.

"Current Value" shall mean (i) with respect to Property, Plant and Equipment: (a) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser selected by the Obligated Group Representative and acceptable to the Master Trustee and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which Current Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated, minus the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment included in such report but disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated; plus (b) the Book Value of any Property, Plant and Equipment acquired since the last

such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated, minus (c) the Book Value of any such Property, Plant and Equipment acquired since the last such report but disposed of and (ii) with respect to any other Property, the fair market value of such Property, which fair market value shall be evidenced in a manner satisfactory to the Master Trustee.

"Days Cash on Hand" means, as of the date of calculation, the amount determined by dividing (a) the amount of Cash and Investments on such date by (b) the quotient obtained by dividing Expenses (including interest on Indebtedness but excluding provisions for bad debt, amortization, depreciation or any other non-cash expenses) as shown on the most recent annual audited financial statements of the Obligated Group, by 365.

"Debt Service Requirements" shall mean, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding Funded Indebtedness of each Person or a group of Persons with respect to which calculated; provided that: (a) the amount of such payments for a future period shall be calculated in accordance with the assumptions described in the Master Indenture; (b) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Funded Interest is available to pay such interest; (c) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal; (d) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent moneys were initially deposited and are on deposit as of the date of calculation in a debt service reserve fund which requires that moneys on deposit in the debt service reserve fund be used to pay a principal payment in the final year of such Indebtedness, and except for the payment to be received from such debt service reserve fund, the Indebtedness would have had approximately level debt service; (e) any annual fees payable in respect of a Credit Facility (other than annual fees to be paid from proceeds of a bond issue escrowed for such purpose) shall be included in the determination of Debt Service Requirements, and (f) with respect to any Funded Indebtedness for which the number of actual payments of principal in any Fiscal Year is greater than those in the immediately preceding and/or succeeding Fiscal Years solely by reason of the fact that such principal payments are scheduled to occur other than on a specified date or dates, the first or last principal payment in such Fiscal Year, as the case may be, for which the number of payments is higher shall be deemed to be required to be made in the next preceding or succeeding Fiscal Year, as appropriate, so as to have an equal number of principal payments in each Fiscal Year.

"Encumbered" shall mean subject to a Lien.

"Entrance Fees" shall mean the fees, other than security deposits, monthly rentals or monthly service charges, paid to a Member by residents of living units for the purpose of obtaining the right to reside in those living units including any refundable resident deposits described in any lease or similar residency agreements with respect to those living units, but shall

not include any such amounts held in escrow or otherwise set aside pursuant to the requirements of any such agreement prior to the occupancy of the living unit covered by such agreement (which amounts shall be included if and when occupancy occurs). Entrance Fees shall also include fees, other than security deposits, monthly rentals or monthly service charges, paid to a Member by residents for the purpose of obtaining parking space.

"Escrow Obligations" shall mean (a) with respect to any Master Note which secures a series of Related Bonds, the obligations permitted to be used to refund or advance refund such series of Related Bonds under the Related Bond Indenture, or (b) in all other cases, (i) Government Obligations, (ii) obligations of any agency or instrumentality of the United States Government, (iii) certificates of deposit issued by a bank or trust company which are (A) fully insured by the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation or similar corporation chartered by the United States or (B) secured by a pledge of any United States Government Obligations having an aggregate market value, exclusive of accrued interest, equal at least to the principal amount of the certificates so secured, which security is held in a custody account by a custodian satisfactory to the Master Trustee, (iv) obligations issued by any state of the United States or any political subdivision, public instrumentality or public authority of any state, which obligations are not callable before the date the principal thereof will be required and which obligations are fully secured by and payable solely from Government Obligations, which securities are held pursuant to an agreement in form and substance acceptable to the Master Trustee, or (v) shares or certificates in any short-term investment fund which is maintained by the Master Trustee or a Related Bond Trustee..

"Event of Default" under the Loan Agreement shall mean an event of Default specified in the Bond Indenture.

"Excluded Property" means (a) any assets of "employee pension benefit plans" as defined in the Employee Retirement Income Security Act of 1974, as amended, (b) any moneys and securities held as an entrance fee deposit or security deposit, or in a resident trust fund, for any resident of any Facility of a Member prior to such resident's occupancy of any Facility, and (c) the real estate described in Exhibit C of the Master Indenture, as amended as provided thereto from time to time, and all improvements, fixtures, tangible personal property and equipment located thereon and used in connection therewith.

"Expenses" means, for any period, the aggregate of all expenses calculated under generally accepted accounting principles, including without limitation any taxes, incurred by the Person or group of Persons involved during such period, minus (a) interest on Funded Indebtedness (taking into account any Interest Rate Agreement), (b) depreciation and amortization, (c) extraordinary expenses, losses on the sale of assets other than in the ordinary course of business and losses on the extinguishment of debt or termination of pension plans, (d) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate which does not constitute an extraordinary expense, (e) losses resulting from any reappraisal, revaluation or write-down of assets other than bad debts, (f) any losses resulting from changes in the valuation of investment securities and unrealized changes in the value of derivative instruments or resulting from the temporary impairment of investment securities, (g) any other non-cash expenses and (h) any development, marketing, operating or other subordinated fees that have been deferred from the year in which they were originally due

as a result of subordination (provided that such fees shall be treated as an Expense during the period in which such fees are paid). If such calculation is being made with respect to the Obligated Group, any such expenses attributable to transactions between any Member and any other Member shall be excluded.

"Extendable Indebtedness" shall mean Indebtedness which is repayable or subject to purchase at the option of the holder thereof prior to its stated maturity, but only to the extent of money available for the repayment or purchase therefore and not more frequently than once every year.

"Facilities" shall mean all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of a Person. Facilities shall not include the land, leasehold interests, buildings, fixtures or equipment constituting Excluded Property.

"Fiscal Year" shall mean any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of such next calendar year or such other consecutive twelve-month period selected by the Obligated Group Representative as the fiscal year for the Members.

"Foundation" shall mean Baptist Homes of Indiana Foundation, Inc., an Indiana nonprofit corporation and its successors and assigns and any surviving, resulting or transferee corporation.

"Funded Indebtedness" shall mean with respect to any Person (a) all Indebtedness of such Person for money borrowed, credit extended, incurred or assumed which is not Short-Term; (b) all Short-Term Indebtedness incurred by the Person which is of the type described in the Master Indenture; (c) the Person's Guaranties of Indebtedness which are not Short-Term; and (d) Capitalized Rentals under Capitalized Leases entered into by the Person; provided, however, that Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made pursuant to the Master Indenture.

"Funded Interest" shall mean amounts irrevocably deposited in an escrow or other trust account, to pay interest on Funded Indebtedness or Related Bonds and interest earned on amounts irrevocably deposited in an escrow or other trust account to the extent such amounts so deposited are required to be applied to pay interest on Funded Indebtedness or Related Bonds.

"Governing Body" shall mean with respect to a Member, the board of directors, the board of trustees or similar group in which the right to exercise the powers of corporate directors is vested.

"Government Obligations" shall mean securities which consist of (a) United States Government Obligations or (b) evidences of a direct ownership in future principal payments on United States Government Obligations, which obligations are held in a custody account by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian satisfactory to the Master Trustee pursuant to the terms of a custody agreement.

"Gross Revenues" means all receipts, revenues, rentals, income, insurance proceeds (including, without limitation, all Medicaid, Medicare and other third party payments), condemnation awards and other moneys received by or on behalf of any Obligated Group Member, including (without limitation) revenues derived from (a) the ownership, operation or leasing of any portion of the Facilities (including, without limitation, fees payable by or on behalf of residents of the Facilities) and all rights to receive the same (other than the right to receive Medicaid and Medicare payments), whether in the form of accounts, general intangibles or other rights, and the proceeds of such accounts, general intangibles and other rights, whether now existing or hereafter coming into existence or whether now owned or held or hereafter acquired, and (b) gifts, grants, bequests, donations and contributions made that are legally available to meet any of the obligations of the Obligated Group Member incurred in the financing, operation, maintenance or repair of any portion of the Facilities; provided, however, that there shall be excluded from Gross Revenues (i) any amounts received by an Obligated Group Member as a billing agent for another entity, except for fees received for serving as billing agent, (ii) gifts, grants, bequests, donations and contributions to an Obligated Group Member made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payments required under the Master Indenture, (iii) any moneys received by any Obligated Group Member from prospective residents or commercial tenants in order to pay for customized improvements to areas of the Facilities to be occupied or leased to such residents or tenants, (iv) payments or deposits under a Residency Agreement that by its terms or applicable law are required to be held in escrow or trust for the benefit of a resident until the conditions for the release of such payment or deposit have been satisfied, and (v) all deposits and/or advance payments made in connection with any leases of the Facilities to be leased to residents or tenants and received prior to receipt of such certificate and licenses for occupancy of such units.

"Guaranty" shall mean all obligations of a Person guaranteeing, or in effect guaranteeing any Indebtedness, dividend or other obligation of any Primary Obligor in any manner, whether directly or indirectly, including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (a) to purchase such Indebtedness or obligation or any Property constituting security therefor; (b) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (c) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (d) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

"Historical Debt Service Coverage Ratio" shall mean, for any period of time, the ratio consisting of a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Debt Service Requirements for such period and a denominator of one; provided, however, that in calculating the Debt Service Requirements for such period, the principal amount of any Indebtedness included in such calculation which is paid during such period shall be excluded to the extent such principal amount is paid from the proceeds of other Indebtedness incurred in accordance with the provisions of the Master Indenture.

"Historical Pro Forma Debt Service Coverage Ratio" shall mean, for any period of time, the ratio consisting of a numerator equal to the amount determined by dividing Income Available

for Debt Service for that period by the Maximum Annual Debt Service Requirement for the Funded Indebtedness then outstanding (other than any Funded Indebtedness being refunded with the Funded Indebtedness then proposed to be issued) and the Funded Indebtedness then proposed to be issued and a denominator of one.

"Income Available for Debt Service" shall mean, for any period, the excess of Revenues over Expenses of the Person or group of Persons involved.

"Indebtedness" means, for any Person, (a) all Guaranties by such Person, (b) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and (c) all obligations for the payment of money incurred or assumed by such Person (i) due and payable in all events or (ii) if incurred or assumed primarily to assure the repayment of money borrowed or credit extended, due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessee, rendering of services by others or otherwise; provided that Indebtedness shall not include Indebtedness of one Member to another Member, any Guaranty by any Member of Indebtedness of any other Member, the joint and several liability of any Member on Indebtedness issued by another Member, Interest Rate Agreements or any obligation to repay moneys deposited by patients or others with a Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to Entrance Fees, endowment or similar funds deposited by or on behalf of such residents.

"Independent Counsel" shall mean an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for any Related Issuer, any Member, the Master Trustee or any Related Bond Trustee.

"Initial Entrance Fees" shall mean Entrance Fees received upon the initial occupancy of any Independent Living Unit or assisted living unit not previously occupied.

"Initial Purchaser" means Ziegler Capital Markets Group, a division of B.C. Ziegler and Company.

"Insurance Consultant" shall mean a person or firm, who in the case of an individual is not an employee or officer of any Member or any Related Issuer and which, in the case of a firm, does not control any Member of the Obligated Group or any Affiliate thereof, and is not controlled by or under common control with any Member of the Obligated Group or an Affiliate thereof, appointed by the Obligated Group Representative and not objected to by the Master Trustee, qualified to survey risks and to recommend insurance coverage for nursing homes or health care facilities and services of the type involved, and having a favorable reputation for skill and experience in such surveys and such recommendations, and which may include a broker or agent with whom any Member transacts business.

"Interest Rate Agreement" shall mean an interest rate exchange, hedge or similar agreement, expressly identified in an Officer's Certificate of the Obligated Group Representative delivered to the Master Trustee as being entered into in order to hedge the interest payable on all

or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g. a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. An Interest Rate Agreement shall not constitute Indebtedness under the Master Indenture.

"Investment Securities" means dollar denominated investments, to the extent permitted by law, in any of the following:

- (a) Government Obligations;
- (b) debt obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision, and (ii) at the time of purchase, rated "AAA" by Standard & Poor's and rated "Aaa" by Moody's;
- (c) any bond, debenture, note, participation certificate or other similar obligation which is either (i) issued or guaranteed by the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank or the Student Loan Marketing Association, or (ii) backed by the full faith and credit of the United States of America;
- (d) U.S. denominated deposit account, certificates of deposit and banker's acceptances with domestic commercial banks, including the Bond Trustee or the Master Trustee or its affiliates, which have a rating on their short-term certificates of deposit on the date of purchase of "A-1" by Standard & Poor's or "P-1" by Moody's, without regard to gradation, and which matures not more than 360 days after the date of purchase;
- (e) commercial paper which is rated at the time of purchase within the classification or higher, "A-1" by Standard & Poor's or "P-1" by Moody's, without regard to gradation, and which matures not more than 270 days after the date of purchase;
- (f) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by Standard & Poor's, Moody's or Fitch in any of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);
- (g) investment agreements with banks that at the time such agreement is executed are rated by Standard & Poor's or Moody's in one of the two highest rating categories assigned by Standard & Poor's or Moody's (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) or investment agreements with non-bank financial institutions which, (1) all of the unsecured, direct long-term debt of either the non-banking financial institution or the related guarantor of such non-bank financial institution is rated by Standard & Poor's or Moody's at the time such agreement is executed in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for obligations of that nature; or (2) if such non-bank financial institutions have no outstanding long-term debt that is rated, all of the short-term debt of either the non-banking financial institution or the related guarantor of such non-bank financial

institution is rated by Standard and Poor's or Moody's in the highest rating category (without regard to any refinement or gradation of the rating category by numerical modifier or otherwise) assigned to short term indebtedness by Standard & Poor's or Moody's; provided that if at any time after purchase the provider of the investment agreement drops below the two highest rating categories assigned by Standard & Poor's or Moody's, the investment agreement must, within 30 days, either (1) be assigned to a provider rated in one of the two highest rating categories or (2) be secured by the provider with collateral securities the fair market value of which, in relation to the amount of the investment agreement including principal and interest, is equal to at least 102%; investment agreements with banks or non-bank financial institutions shall not be permitted if no rating is available with respect to debt of the investment agreement provider or the related guarantor of such provider;

(h) repurchase agreements with respect to and secured by Government Obligations or by obligations described in clause (b) and (c) above, which agreements may be entered into with a bank (including without limitation the Bond Trustee or the Master Trustee), a trust company, financial services firm or a broker dealer which is a member of the Securities Investors Protection Corporation, provided that (i) the Master Trustee or a custodial agent of the Master Trustee has possession of the collateral and that the collateral is, to the knowledge of the Master Trustee, free and clear of third-party claims, (ii) a master repurchase agreement or specific written repurchase agreement governs the transaction, (iii) the collateral securities are valued no less frequently than monthly, and (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%, and (v) such obligations must be held in the custody of the Bond Trustee or the Master Trustee's agent; and

(i) shares of a fixed income mutual fund, Exchange Traded Fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and whose investments consist solely of Permitted Investments as defined in paragraphs (a) through (h) above, including money market mutual funds from which the Master Trustee or its affiliates derive a fee for investment advisory or other services to the fund.

The Master Trustee shall be entitled to assume that any investment which at the time of purchase is a Permitted Investment remains a Permitted Investment thereafter, absent receipt of written notice or information to the contrary.

"Land" means the real Property owned or leased by the Obligated Group upon which the primary operations of the Members are conducted as described in Exhibit A to the Master Indenture, as amended as provided therein from time to time, together with all buildings, improvements and fixtures located thereon, but excluding therefrom the Excluded Property

"Lien" shall mean any mortgage, pledge or lease of, security interest in or lien, charge restriction or encumbrance on any Property of the person involved in favor of, or which secures any obligation to, any person other than any Member, and any Capitalized Lease under which any Member is lessee and the lessor is not another Member.

"Liquidity Requirement" shall mean Days Cash on Hand of at least 180.

"Loan Agreement" shall mean the Loan Agreement between the Authority and the Corporation dated as of December 1, 2005, including all amendments thereof and supplements thereto.

"Long-Term Indebtedness" shall mean Indebtedness (which also may constitute Balloon Indebtedness or Put Indebtedness) having an original stated maturity or term greater than one year or renewable at the option of the debtor for a period greater than one year from the date of original issuance.

"Mandatory Tender Request" shall mean the written request of the Corporation for the mandatory tender for purchase of the Series 2005 Bonds under the Bond Indenture.

"Master Indenture" shall mean the Master Trust Indenture dated as of December 1, 2005 among the Corporation, the Foundation and the Master Trustee, including any amendments or supplements thereto and modifications thereof.

"Master Note" or "Note" shall mean any Master Note issued under the Master Indenture.

"Master Trustee" shall mean Wells Fargo Bank, National Association, its successors and assigns, or any successor trustee under the Master Indenture.

"Maximum Annual Debt Service" shall mean an amount equal to the aggregate maximum principal and interest requirements (taking into account all mandatory sinking fund payments) due in any Bond Year on Bonds Outstanding, calculated in accordance with the Master Indenture.

"Maximum Annual Debt Service Requirement" shall mean the largest total Debt Service Requirements for the current or any succeeding Fiscal Year.

"Member," "Members" or "Member of the Obligated Group" shall mean Baptist Homes of Indiana, Inc., Baptist Homes of Indiana Foundation, Inc. and any other Person who has satisfied the conditions to become a Member of the Obligated Group under the Master Indenture and has not withdrawn from the Obligated Group pursuant to the provisions of the Master Indenture.

"Mortgage" or "Master Mortgage" means, collectively, the three Mortgage, Security Agreement and Fixture Financing Statements among the Corporation and the Foundation as Mortgagors, and the Master Trustee, as mortgagee, dated as of November 1, 2000, each as amended by a First Amendment to Mortgage dated as of December 1, 2005, as the same may be supplemented and amended from time to time.

"Net Proceeds" shall mean, when used with respect to any insurance or condemnation award or sale consummated under threat of condemnation, the gross proceeds from the insurance or condemnation award or sale with respect to which that term is used less all expenses (including attorney's fees, adjuster's fees and any expenses of the Obligated Group or the Master Trustee) incurred in the collection of such gross proceeds.

"Net Rentals" shall mean all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"Non-Recourse Indebtedness" shall mean any Indebtedness the liability for which is effectively limited to Property, Plant and Equipment (other than the Land) and the income therefrom, with no recourse, directly or indirectly, to any other Property of any Member.

"Obligated Group" shall mean the Corporation, the Foundation, and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in the Master Indenture.

"Obligated Group Representative" shall mean the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee, executed by the President or Chairman of the Governing Body of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

"Officer's Certificate" shall mean a certificate signed, in the case of a certificate delivered by a Member of the Obligated Group, by the President, any Vice President, Executive Director, Director of Finance or any other officer or agent authorized to sign by resolution of the Governing Body of any Member of the Obligated Group or in the case of a certificate delivered by any other corporation, by the President, any Vice President, the Executive Director, Director of Finance, or any other officer or agent authorized to sign by resolution of the Governing Body of such corporation or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person, in either case whose authority to execute such certificate shall be evidenced to the satisfaction of the Master Trustee.

"Opinion of Bond Counsel" shall mean a written opinion of nationally recognized municipal bond counsel, which opinion, including the scope, form, substance and other aspects thereof, is acceptable to the Master Trustee, and which opinion may be based upon a ruling or rulings of the Internal Revenue Service.

"Outstanding" shall mean in the case of Indebtedness of a Person other than Related Bonds or Master Notes, all such Indebtedness of such Person which has been issued except any such portion thereof canceled after purchase or surrendered for cancellation or because of payment at or redemption prior to maturity, any such Indebtedness in lieu of which other Indebtedness has been duly incurred and any such Indebtedness which is no longer deemed outstanding under its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness.

"Outstanding Notes" or "Notes Outstanding" shall mean all Master Notes which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Master Notes canceled after purchase or because of payment at or prepayment or redemption prior to maturity;

(b) (i) Master Notes for the payment or redemption of which cash or Escrow Obligations shall have been deposited with the Master Trustee (whether upon or prior to the maturity or redemption date of any such Master Notes); provided that if such Master Notes are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or irrevocable arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee and (ii) Master Notes securing Related Bonds for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Related Bonds); provided that if such Master Notes are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Master Notes in lieu of which others have been authenticated under the Master Indenture; and

(d) Master Notes held by a Member.

Notwithstanding the foregoing, any Master Note securing Related Bonds shall be deemed Outstanding if such Related Bonds are Outstanding.

"Paying Agent" in respect to the Loan Agreement shall mean any bank or trust company, including the Bond Trustee, designated pursuant to the Bond Indenture to serve as a paying agency or place of payment for the Series 2005 Bonds and any successor designated pursuant to the Bond Indenture.

"Permitted Encumbrances" shall mean the Master Indenture, any Related Loan Document, any Related Bond Indenture and, as of any particular time:

(a) Liens arising by reason of good faith deposits with a Member in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment

insurance, pensions or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for corporations participating in such arrangements;

(b) any Lien on the Property of any Member permitted under the provisions of the Master Indenture;"

(c) the Mortgage and any other security agreement or document securing the Master Trustee, and any other Lien on Property if such Lien equally and ratably secures all of the Master Notes and only the Master Notes;

(d) Residency Agreements and leases which relate to Property of the Obligated Group which is of a type that is customarily the subject of such leases, such as office space for physicians and educational institutions, food service facilities, gift shops, commercial, beauty shop, banking, other similar specialty services, pharmacy and similar departments or employee rental apartments; sale/saleback or lease/leaseback or similar arrangements in connection with the issuance of Related Bonds; and any leases, licenses or similar rights to use Property whereunder a Member is lessee, licensee or the equivalent thereof upon fair and reasonable terms no less favorable to the lessee or licensee than would obtain in a comparable arm's-length transaction;

(e) Liens for taxes and special assessments which are not then delinquent, or if then delinquent are being contested in accordance with the provisions of the Master Indenture;

(f) utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair the operation of the Property affected thereby (or, if such Property is not being then operated, the operation for which it was designed or last modified);

(g) any mechanic's, laborer's, materialman's, supplier's or vendor's Lien or right in respect thereof if payment is not yet due under the contract in question or has been done for less than sixty (60) days, or if such Lien is being contested in accordance with the provisions of the Master Indenture;

(h) such Liens, defects, irregularities of title and encroachments on adjoining property as normally exist with respect to property similar in character to the Property involved and which do not materially adversely affect the value of, or materially impair, the Property affected thereby for the purpose for which it was acquired or is held by the owner thereof, including without limitation statutory liens granted to banks or other financial institutions, which liens have not been specifically granted to secure Indebtedness and which do not apply to Property which has been deposited as part of a plan to secure Indebtedness;

(i) zoning laws and similar restrictions which are not violated by the Property affected thereby;

(j) statutory rights under Section 291, Title 42 of the United States Code, as a result of what are commonly known as Hill-Burton grants, and similar rights under other federal statutes or statutes of the state in which the Property involved is located;

(k) all right, title and interest of the state where the property involved is located; municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way;

(l) Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that (i) such Liens consist solely of restrictions on the use thereof or the income therefrom, or (ii) such Liens secure Indebtedness which is not assumed by any Member and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(m) Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which any Member shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall be in existence;

(n) Liens on moneys deposited by residents or others with a Member as security for or as prepayment of the cost of resident patient care or any rights of residents of life care, elderly housing or similar facilities to endowment, prepayment or similar funds deposited by or on behalf of such residents;

(o) Liens on Excluded Property;

(p) Liens on Property due to rights of third party payors for recoupment of excess reimbursement paid;

(q) any security interest in the Rebate Fund, any depreciation reserve, debt service or interest reserve, debt service, construction fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer or the holder of the Indebtedness issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document or the holder of any related Commitment Indebtedness;

(r) any Lien on any Related Bond or any evidence of Indebtedness of any Member acquired by or on behalf of any Member which secures Commitment Indebtedness and only Commitment Indebtedness;

(s) any Lien on Property acquired by a Member which Lien secures Indebtedness issued, incurred or assumed by any Member, in connection with and to effect such acquisition or existing Indebtedness which will remain outstanding after such acquisition which Lien encumbers Property other than Land, if in any such case the

aggregate principal amount of such Indebtedness does not exceed the fair market value subject to such Lien as determined in good faith by the Governing Body of the Member;

(t) Liens on accounts receivable arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the face amount of such accounts receivable sold;

(u) such Liens, covenants, conditions and restrictions, if any, which do not secure Indebtedness and which are other than those of the type referred to above, as are set forth in the Master Indenture, and which (i) in the case of Property owned by the Obligated Group on the date of execution of the Master Indenture, do not and will not, so far as can reasonably be foreseen, materially adversely affect the value of the Property currently affected thereby or materially impair the same, and (ii) in the case of any other Property, do not materially impair or materially interfere with the operation or usefulness thereof for the purpose for which such Property was acquired or is held by a Member; and

(v) the items set forth on Schedule B to the title insurance policy.

"Person" shall mean any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability company, public body, agency or political subdivision thereof or any other similar entity.

"Primary Obligor" shall mean the Person who is primarily obligated on an obligation which is guaranteed by another person.

"Prior Bonds" shall mean the Authority's Variable Rate Demand Revenue Bonds (Baptist Homes of Indiana) Series 2000.

"Projected Debt Service Coverage Ratio" shall mean, for any future period, the ratio consisting of a numerator equal to the amount determined by dividing the projected Income Available for Debt Service for that period by the Maximum Annual Debt Service Requirement for the Funded Indebtedness expected to be outstanding during such period and a denominator of one.

"Projected Rate" shall mean the projected yield at par of an obligation as set forth in the report of a Consultant (which Consultant and report are not objected to by the Master Trustee). Such report shall state that in determining the Projected Rate such Consultant reviewed the yield evaluations at par of not less than three obligations selected by such Consultant, the interest on which is entitled to the exemption from federal income tax afforded by Section 103(a) of the Code or any successor thereto (or if it is not expected that it will be reasonably possible to issue such tax-exempt obligations, then obligations the interest on which is subject to federal income taxation) which obligations such Consultant states in its report are reasonable comparators for utilizing in developing such Projected Rate and which obligations: (i) were outstanding on a date selected by the Consultant which date so selected occurred during the 90-day period preceding the date of the calculation utilizing the Projected Rate in question, (ii) to the extent practicable, are obligations of Persons engaged in operations similar to those of the Obligated

Group and having a credit rating similar to that of the Obligated Group, (iii) are not entitled to the benefits of any credit enhancement, including without limitation any letter or line of credit or insurance policy, and (iv) to the extent practicable, have a remaining term and amortization schedule substantially the same as the obligation with respect to which such Projected Rate is being developed.

"Property" shall mean any and all rights, titles and interests in and to any and all property whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired, other than Excluded Property.

"Property, Plant and Equipment" shall mean all Property of each Member which is classified as property, plant and equipment under generally accepted accounting principles.

"Put Date" shall mean (a) any date on which an owner of Put Indebtedness may elect to have such Put Indebtedness paid, purchased or redeemed by or on behalf of the underlying obligor prior to its stated maturity date or (b) any date on which Put Indebtedness is required to be paid, purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an event of default.

"Put Indebtedness" shall mean Indebtedness which is (a) payable or required to be purchased or redeemed by or on behalf of the underlying obligor, at the option of the owner thereof, prior to its stated maturity date or (b) payable or required to be purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund, other than by reason of an event of taxability with respect to any Related Bond or other than by reason of acceleration upon the occurrence of an event of default.

"Qualified Provider" means a counterparty whose senior long term debt obligations, or whose obligations under a Reserve Fund Credit Instrument are guaranteed by an entity whose senior long term debt obligations, are rated in one of the three highest Rating Categories by a Rating Agency which then has a rating in effect for the Series 2005 Bonds at the time the subject Reserve Fund Credit Instrument is entered into.

"Rating Agency" shall mean Standard & Poor's Rating Services, Moody's Investor Services, or Fitch Ratings, or the successors thereof.

"Rebate Fund" shall mean the fund by that name created under the Bond Indenture.

"Related Bond Indenture" shall mean any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"Related Bond Trustee" shall mean the trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

"Related Bonds" shall mean any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof the proceeds of which are loaned or otherwise made available to any Member in consideration, whether in whole or in part, of the execution, authentication and delivery of a Master Note or Master Notes.

"Related Issuer" means the Authority and any other issuer of a series of Related Bonds.

"Related Loan Document" shall mean any other document or documents (including without limitation any lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Member (or any Property financed or refinanced with such proceeds is leased, subleased or sold to a Member).

"Reserve Fund Credit Instrument" means a letter of credit, surety bond, liquidity facility, insurance policy or comparable instrument furnished by a Qualified Provider with respect to all or a specific portion of the Series 2005 Bonds to satisfy in whole or in part the Corporation's obligations to maintain a reserve requirement with respect thereto.

"Reserve Requirement" shall mean as of any date of calculation, the lesser of (a) the Maximum Annual Debt Service on the Bonds then Outstanding, (b) ten percent (10%) of the stated principal amount of the Bonds then Outstanding or (c) 125% of the average annual debt service on the Bonds then Outstanding.

"Residency Agreement" shall mean any written agreement or contract, as amended from time to time, between a Member and a resident of a Facility giving the resident certain rights of occupancy in the Facility, including without limitation, independent living units, assisted living units, skilled nursing beds or specialty care beds and providing for certain services to such resident.

"Revenues" shall mean, for any period, (a) in the case of any Person providing health care services and/or senior living services, the sum of (i) resident service revenues plus (ii) other operating revenues, plus (iii) non-operating revenues (other than Contributions, income derived from the sale of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item or earnings which constitute Funded Interest, or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness), plus (iv) Unrestricted Contributions, plus (v) Entrance Fees (other than Initial Entrance Fees) received minus (A) entrance fees amortized during such Fiscal Year and (B) Entrance Fees refunded to residents and (b) in the case of any other Person, Gross Revenues less sale discounts and sale returns and allowances, as determined in accordance with generally accepted accounting principles; but excluding in either case (i) any unrealized gain or loss resulting from changes in the valuation of investment securities or unrealized changes in the value of derivative instruments, (ii) any gains on the sale or other disposition of fixed or capital assets not in the ordinary course, (iii) earnings resulting from any reappraisal, revaluation or write-up of fixed or capital assets, (iv) any revenues recognized from deferred revenues related to entrance fees or (v) insurance (other than business interruption) and condemnation proceeds; provided, however, that if such calculation is being made with respect to the Obligated Group,

such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions between any Member and any other Member. For purposes of calculations under the Master Indenture, an Unrestricted Contribution from an Affiliate shall be treated as being made during the period of such calculation so long as the Unrestricted Contribution is made prior to the date the applicable Certificate is required to be delivered with respect to such calculation. For purposes of any calculation thereunder that is made with reference to both Revenues and Expenses, any deduction from gross resident service revenues otherwise required by this definition shall not be made if and to the extent that the amount of such deduction is included in Expenses.

"Series" means a series of Bonds.

"Series 2005 Bonds" shall mean the Indiana Health and Educational Facility Financing Authority Revenue Refunding Bonds, Series 2005 (Baptist Homes of Indiana) issued pursuant to the Bond Indenture.

"Series 2005 Note" shall mean the Series 2005 Note issued by the Corporation pursuant to the Series 2005 Supplemental Indenture.

"Series 2005 Supplemental Indenture" shall mean the Series 2005 Supplemental Master Trust Indenture, dated as of December 1, 2005 between the Corporation and the Master Trustee.

"Short-Term" when used in connection with Indebtedness, shall mean having an original maturity less than or equal to one year and not renewable at the option of the debtor for a term greater than one year beyond the date of original issuance.

"Subordinated Indebtedness" shall mean Indebtedness which meets the requirements set forth in the Master Indenture.

"Tax-Exempt Organization" shall mean a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Testing Date" shall mean the end of each Fiscal Year on which the Obligated Group will deliver an Officer's Certificate to the Master Trustee indicating its Day's Cash on Hand as of June 30 and December 31 of each such Fiscal Year.

"Unassigned Rights" shall mean the Authority's rights under the Loan Agreement to execute and deliver supplements and amendments thereto, to be reimbursed by the Corporation for reasonable fees and expenses incurred by the Authority, and to be indemnified by the Corporation for any liability incurred by the Authority.

"Underwriter" shall mean Ziegler Capital Markets Group, a division of B.C. Ziegler and Company.

"United States Government Obligations" shall mean non callable direct obligations of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by,

the United States of America, including obligations issued or held in book entry form on the books of the Department of Treasury of the United States of America.

"Written Request" shall mean, in the Master Indenture, with reference to a Related Issuer, a request in writing signed by the Chairman, Vice-Chairman or Executive Director, of the Related Issuer and with reference to any Member means a request in writing signed by the President, Vice President or Treasurer of such Member, or any other officers designated by the Related Issuer or such Member, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

The Master Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Master Trust Indenture for a full and complete statement of its provisions.

The Master Notes

Each Member will duly and punctually pay the principal of, premium, if any, and interest on each Master Note issued by it at the place, on the dates, and in the manner provided in the Master Indenture and in the Master Notes. Each Member unconditionally and irrevocably jointly and severally guarantees and promises to pay any and all payments on all Master Notes when due. These agreements on the part of each Member shall be absolute and unconditional until such Member withdraws from the Obligated Group or until satisfaction and discharge of the Master Indenture.

To the extent that any Indebtedness which is permitted or required to be issued pursuant to the Master Indenture is not evidenced by a promissory note, a Master Note in the form of a promissory note may be issued thereunder and pledged as security for the payment of such Indebtedness in lieu of directly issuing such Indebtedness as a Master Note. Nevertheless, the parties to the Master Indenture agree that Master Notes may be issued to evidence any type of Indebtedness, including without limitation any Indebtedness in a form other than a promissory note. In addition, any Interest Rate Agreement may be authenticated as a Master Note under the Master Indenture. Consequently, the Supplemental Master Indenture pursuant to which any Master Note is issued may provide for such supplements or amendments to the provisions of the Master Indenture, as are necessary to permit the issuance of such Master Note and as are not inconsistent with the intent thereof that, except as otherwise expressly provided therein, all Master Notes issued thereunder be equally and ratably secured by any Lien created thereunder. Any Interest Rate Agreement which is authenticated as a Master Note under the Master Indenture or any Master Note issued to secure an Interest Rate Agreement shall be equally and ratably secured by any lien created under the Master Indenture with all other Master Notes issued thereunder, except as otherwise expressly provided therein, provided, however, that any such Master Note shall be deemed Outstanding thereunder solely for the purpose of receiving payment thereunder and shall not be entitled to any other rights thereunder.

Entrance into the Obligated Group

Any Person may become a Member of the Obligated Group if:

(a) Such Person shall execute and deliver to the Master Trustee (i) a Supplemental Master Indenture acceptable to the Master Trustee which shall be executed by the Master Trustee and the Obligated Group Representative, containing (i) the agreement of such Person (A) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Master Indenture and (B) unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture) to jointly and severally make payments upon each Master Note at the times and in the amounts provided in each such Master Note and (ii) representations and warranties by such Person substantially similar to those set forth in the Master Indenture (but with such deviations as are acceptable to the Master Trustee);

(b) The Obligated Group Representative by appropriate action of its Governing Body, shall have approved the admission of such Person to the Obligated Group and each of the other Members shall have taken such action, if any, required to approve the admission of such Person to the Obligated Group;

(c) The Master Trustee shall have received (1) an Officer's Certificate of the Obligated Group Representative which (A) demonstrates that (i) immediately upon such Person becoming a Member of the Obligated Group, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking the Person becoming a Member into account, for the most recent Fiscal Year for which financial statements that have been reported upon by independent certified public accountants are available would be not less than 1.10:1 or that such Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking the Person becoming a Member into account, is not less than the Historical Debt Service Coverage Ratio of the Obligated Group was for such Fiscal Year without such Person becoming a Member of the Obligated Group and (ii) immediately upon such Person becoming a Member of the Obligated Group, taking the Person becoming a Member into account, the Obligated Group would be in compliance with the Liquidity Requirement of the Master Indenture based on the most recent quarterly financial statements delivered to the Master Trustee pursuant to the Master Indenture or that the number of Days Cash on Hand of the Obligated Group, taking the Person becoming a Member into account, is greater than the number of Days Cash on Hand would be without such Person becoming a Member of the Obligated Group; (B) states that prior to and immediately after such Person becoming a Member of the Obligated Group, no event of default exists thereunder and no event shall have occurred which with the passage of time or the giving of notice, or both, would become such an event of default; and (C) prior to and immediately after such Person becoming a Member of the Obligated Group, the Members would not be in default in the performance or observance of any covenant or condition to be performed or observed; (2) an opinion of Independent Counsel in form and substance acceptable to the Master Trustee to the effect that (x) the instrument described in paragraph (a) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and to the exceptions set forth in the Master Indenture and (y) the addition of such Person to the Obligated Group will not adversely

affect the status as a Tax-Exempt Organization of any Member which otherwise has such status and (3) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indentures, an Opinion of Bond Counsel to the effect that under then existing law the addition of such Person to the Obligated Group, whether or not contemplated on the date of delivery of any such Related Bond, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Bond otherwise entitled to such exemption; provided that in making the calculation called for by this subsection, (i) there shall be excluded from Revenues (a) any Revenues generated by Property of such Person transferred or otherwise disposed of by such Person since the beginning of the Fiscal Year during which such Person's entry into the Obligated Group occurs and (b) any Revenues generated by Property of the new Member which at the time of such Member's entry into the Obligated Group will be categorized as Excluded Property and (ii) there shall be excluded from Expenses (a) any Expenses related to Property of such Person transferred or otherwise disposed of by such Person since the beginning of the Fiscal Year during which such Person's entry into the Obligated Group occurs and (b) any Expenses related to Property of the new Member which at the time of such Member's entry into the Obligated Group will be categorized as Excluded Property; and

(d) Exhibit A to the Master Indenture is amended to include a description of the real property of the Person becoming a Member upon which the primary operations of such Person are conducted and a description of any Permitted Encumbrances of the type described in paragraph (u)(ii) of the definition thereof, (ii) Exhibit C of the Master Indenture is amended to include a description of the Property of the Person becoming a Member which is to be considered Excluded Property (provided that such Property may be treated as Excluded Property only if such Property is real or tangible personal property and the primary operations of such Person are not conducted upon such real property), and (iii) Exhibit E of the Master Indenture is amended to add such Person as a Member.

Withdrawal from the Obligated Group

No Member may withdraw from the Obligated Group unless:

(a) the Member proposing to withdraw from the Obligated Group is not a party to any Related Loan Documents with respect to Related Bonds which remain outstanding;

(b) prior to cessation of such status, there is delivered to the Master Trustee an Opinion of Bond Counsel to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Bond would otherwise be entitled;

(c) prior to the cessation of such status, there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative to the effect that:

(A) (i) immediately after such cessation the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking such cessation into account, for the most recent Fiscal Year for which financial statements that have been reported upon by independent certified public accountants are available would be not less than 1.10:1 or that such Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group, taking such cessation into account, is not less than the Historical Debt Service Coverage Ratio of the Obligated Group was for such Fiscal Year prior to such cessation and (ii) immediately after such cessation, taking such cessation into account, the Obligated Group would be in compliance with the Liquidity Requirement of the Master Indenture based on the most recent quarterly financial statements delivered to the Master Trustee or that the number of Days Cash on Hand of the Obligated Group, taking such cessation into account, is greater than the number of Days Cash on Hand would be immediately prior to such cessation; and (B) prior to and immediately after such cessation, no event of default exists thereunder and no event shall have occurred which with the passage of time or the giving of notice, or both, would become such an event of default;

(d) prior to such cessation there is delivered to the Master Trustee an opinion of Independent Counsel (which Counsel and opinion are acceptable to the Master Trustee) to the effect that the cessation by such Member of its status as a Member will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status; and

(e) prior to cessation of such status, the Obligated Group Representative and each Member, consents in writing to the withdrawal by such Member.

Upon such cessation in accordance with the foregoing provisions, (i) Exhibit A in the Master Trust Indenture shall be amended to delete therefrom the description of any real property and of any Permitted Encumbrances of the Member which has ceased being a Member of the Obligated Group, (ii) Exhibit C in the Master Indenture shall be amended to delete therefrom any Property of the Member which has ceased being a Member, (iii) Exhibit E in the Master Indenture shall be amended to delete therefrom the name of such Person and (iv) the Master Trustee shall be authorized to release any mortgage held by the Master Trustee upon the Property of such Member which has ceased being a Member of the Obligated Group.

The Foundation may only cease its status as a Member of the Obligated Group if (i) the Obligated Group has at least maintained its credit rating for the twelve month period prior to such cessation and (ii) it has been confirmed in writing by any Rating Agency then rating the Obligated Group that such cessation will not result in a reduction of the credit rating of the Obligated Group.

Insurance

Each Member shall maintain, or cause to be maintained at its sole cost and expense, insurance with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks (including but not limited to public liability and employee dishonesty) and in amounts not less than is customary in the case of corporations engaged in the same or similar activities and similarly situated and as is adequate to protect its Property and

operations. The term Property shall be deemed to include Excluded Property. The Obligated Group Representative shall annually review the insurance each Member maintains as to whether such insurance is customary and adequate. In addition, the Obligated Group Representative shall (commencing with its Fiscal Year ending December 31, 2006) cause a certificate of an Insurance Consultant or Insurance Consultants to be delivered to the Master Trustee within 120 days of the end of each Fiscal Year which certificate indicates that the insurance then being maintained by the Members is customary in the case of corporations engaged in the same or similar activities and similarly situated and is adequate to protect the Obligated Group's Property and operations. The Obligated Group Representative shall cause copies of the certificates of the Insurance Consultant or Insurance Consultants, as the case may be, to be delivered promptly to the Master Trustee. The Obligated Group or any Member may self-insure if the Insurance Consultant or Insurance Consultants determine(s) that such self-insurance meets the standards set forth in the first sentence of this paragraph and is prudent under the circumstances; provided, however, that no Member of the Obligated Group shall self-insure any of its Property, Plant and Equipment.

Liquidity Covenant

The Obligated Group covenants that it will deliver an Officer's Certificate to the Master Trustee after the end of each Fiscal Year indicating its Days Cash on Hand as of December 31 of each such Fiscal Year, commencing December 31, 2005 (the "Testing Date"). If on any such Testing Date the Obligated Group's Days Cash on Hand is less than 150, or the Obligated Group has not achieved 180 Days Cash on Hand by the next Testing Date following a Testing Date on which the Obligated Group's Days Cash on Hand was less than 180, but at least 150, the Master Trustee shall require the Obligated Group, at its expense, to retain a Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operating and other factors affecting its financial condition in order to increase the Days Cash on Hand to at least 180. A copy of the Consultant's report and recommendations, if any, shall be filed with each Member, the Master Trustee, each Related Bond Trustee and each Related Issuer. Each Member of the Obligated Group shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Member) and permitted by law. This provision shall not be construed to prohibit the Obligated Group from serving the indigent to the extent required for any Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of individuals without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this paragraph.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group to achieve the liquidity covenant on any Testing Date shall not constitute an Event of Default under the Master Indenture if (i) the Obligated Group takes all action necessary to comply with the procedures set forth in the Master Indenture for preparing a report and adopting a plan and follows each recommendation contained in the report of the Consultant to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law, and (ii) as of the last day of the Fiscal Year in which Days Cash on Hand of the Obligated Group fell below 180 days based upon the financial statements delivered pursuant to the Master Indenture, the Obligated Group maintains a Historical Debt Service Coverage Ratio of at least 1.00:1 for such Fiscal Year or the Days Cash on Hand of the Obligated Group as

of the end of such Fiscal Year is at least 150. If, as of the Liquidity Covenant Default Date, the Historical Debt Service Coverage Ratio of the Obligated Group is less than 1.00:1 and the Days Cash on Hand of the Obligated Group is less than 150, such event shall constitute an event of default under the Master Indenture which (notwithstanding any other cure periods for defaults set forth in the Master Indenture) may be cured only upon receipt by the Obligated Group of Cash and Investments (which may not be borrowed funds) sufficient to raise the Historical Debt Service Coverage Ratio of the Obligated Group to 1.00:1 or to raise the Days Cash on Hand of the Obligated Group to 150 days within 10 days of the Liquidity Covenant Default Date. The cure for any such default shall be established in an Officer's Certificate delivered to the Master Trustee within 10 days of the Liquidity Covenant Default Date.

Rates and Charges

Each Member agrees to operate all of its Facilities on a revenue-producing basis and to charge such fees and rates for its Facilities and services and to exercise such skill and diligence, including obtaining payment for services provided, as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this section.

The Members covenant and agree that the Obligated Group Representative will calculate the Historical Debt Service Coverage Ratio of the Obligated Group for each Fiscal Year, commencing December 31, 2005.

If the Historical Debt Service Coverage Ratio of the Obligated Group is less than 1.10:1, the Master Trustee shall require the Obligated Group, at the Obligated Group's expense, to retain a Consultant within 30 days following the calculation described in the Master Indenture to make recommendations with respect to the rates, fees and charges of the Members and the Obligated Group's methods of operation and other factors affecting its financial condition in order to generate a Historical Debt Service Coverage Ratio of at least 1.10:1 for the following Fiscal Year.

A copy of the Consultant's report and recommendations, if any, shall be filed with each Member, the Master Trustee and each Required Information Recipient within 60 days of retaining the Consultant. Each Member shall follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. This does not prohibit any Member from serving indigent patients to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements of this section.

The foregoing provisions notwithstanding, if the Historical Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year does not meet the levels required above, the Master

Trustee shall not be obligated to require the Obligated Group to retain a Consultant to make such recommendations if: (a) there is filed with the Master Trustee (who shall provide a copy to each Required Information Recipient) a written report addressed to them of a Consultant (which Consultant and report, including without limitation the scope, form, substance and other aspects of such report, are acceptable to the Master Trustee) which contains an opinion of such Consultant that applicable laws or regulations have prevented the Obligated Group from generating Income Available for Debt Service during such Fiscal Year sufficient to meet the requirements of this section, and, if requested by the Master Trustee, such report is accompanied by a concurring opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) as to any conclusions of law supporting the opinion of such Consultant; (b) the report of such Consultant indicates that the rates charged by the Obligated Group are such that, in the opinion of the Consultant, the Obligated Group has generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Historical Debt Service Coverage Ratio of the Obligated Group for such Fiscal Year was at least 1.00:1. The Obligated Group shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides to the Master Trustee (who shall provide a copy to each Related Bond Trustee) an opinion of Independent Counsel (which Counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way.

Notwithstanding any other provisions of the Master Indenture, failure of the Obligated Group to achieve the required Historical Debt Service Coverage Ratio for any Fiscal Year shall not constitute an Event of Default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law.

Notwithstanding any other provisions of the Master Indenture, in the event that any Member of the Obligated Group incurs any Additional Indebtedness for any acquisition, construction, renovation or replacement project pursuant to any other provision of the Master Indenture, the Debt Service Requirements on such Additional Indebtedness and the Revenues and Expenses relating to the project or projects financed with the proceeds of such Additional Indebtedness shall be excluded from the calculation of the Historical Debt Service Coverage Ratio of the Obligated Group for the purposes of complying with this section, until the first full Fiscal Year following the later of (i) the estimated completion of the acquisition, construction, renovation or replacement project being paid for with the proceeds of such Additional Indebtedness provided that such completion occurs no later than six months following the completion date for such project set forth in the Consultant's report described in (A) below, or (ii) the end of the fourth full Fiscal Year after the incurrence of such Additional Indebtedness, if the following conditions are met:

(A) there is delivered to the Master Trustee a report or opinion of a Consultant to the effect that the Projected Debt Service Coverage Ratio for each of the first two full Fiscal Years following the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of such Additional Indebtedness, provided, however, that in the event that a Consultant shall deliver a report to the Master Trustee to the effect that state or Federal laws or regulations or administrative interpretations of such laws or regulations then in existence do not permit or by their application make it impracticable for Members to produce the required ratio, then such ratio shall be reduced to the highest practicable ratio then permitted by such laws or regulations but in no event less than 1.00:1; provided, however, that in the event a Consultant's report is not required to incur such Additional Indebtedness, the Obligated Group may deliver an Officer's Certificate to the Master Trustee in lieu of the Consultant's report described in this subparagraph (A); and

(B) there is delivered to the Master Trustee an Officer's Certificate on the date on which Financial Statements are required to be delivered to the Master Trustee until the first Fiscal Year in which the exclusion from the calculation of the Historical Debt Service Coverage Ratio no longer applies, calculating the Historical Debt Service Coverage Ratio of the Obligated Group at the end of each Fiscal Year, and demonstrating that such Historical Debt Service Coverage Ratio is not less than 1.00:1, such Historical Debt Service Coverage Ratio to be computed without taking into account (I) the Additional Indebtedness to be incurred if (x) the interest on such Additional Indebtedness during such period is funded from proceeds thereof or other funds of the Member then on hand and available therefor and (y) no principal of such Additional Indebtedness is payable during such period, and (II) the Revenues to be derived from the project to be financed from the proceeds of such Additional Indebtedness.

Damage, Destruction or Condemnation

Each Member agrees to notify the Master Trustee immediately in the case of the destruction of its Facilities or any portion thereof as a result of fire or other casualty, or any damage to such Facilities or portion thereof as a result of fire or other casualty, the Net Proceeds of which are estimated to exceed the greater of (i) 3% of the Book Value or, at the option of the Obligated Group Representative, the Current Value of the Property, Plant and Equipment of the Obligated Group or (ii) \$500,000 plus an amount equal to \$500,000 multiplied by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from its level as of December 1, 2005. Each Member hereby irrevocably assigns to the Master Trustee, as its interests may appear, all right, title and interest of such Member in and to any Net Proceeds relating to such damage or destruction, which exceeds the greater of (i) 3% of the Book Value or, at the option of the Obligated Group Representative, the Current Value of the Property, Plant and Equipment of the Obligated Group or (ii) \$500,000 plus an amount equal to \$500,000 multiplied by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from its level as of December 1, 2005. Such Net Proceeds shall be initially paid to the Master Trustee for disbursement or use as provided below. If such Net Proceeds do not exceed the greater of (i) 3% of the Book Value or, at the option of the Obligated Group Representative, the

Current Value of the Property, Plant and Equipment of the Obligated Group or (ii) \$500,000, plus an amount equal to \$500,000 multiplied by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from its level as of December 1, 2005, such Net Proceeds may be paid directly to the Member suffering such casualty or loss. The Members covenant that they will expend or contract to expend an amount not less than the amount of any such Net Proceeds within 24 months after receipt thereof to (i) repair, replace or restore the damaged or destroyed facilities, (ii) acquire or construct additional capital assets for any one or more Members, or (iii) prepay Master Notes or repay the principal portion of any Indebtedness incurred by any one or more Members of the Obligated Group to acquire or construct capital assets or refinance Indebtedness incurred for such purpose.

In the event such Net Proceeds exceed the greater of (i) 3% of the Book Value or, at the option of the Obligated Group Representative, the Current Value of the Property, Plant and Equipment of the Obligated Group or (ii) \$500,000, the Member suffering such casualty or loss shall within 12 months after the date on which the Net Proceeds are finally determined, elect by written notice to the Master Trustee one of the following three options:

(a) A Member may elect to replace, repair, reconstruct, restore or improve any of the Facilities of the Obligated Group or acquire additional Facilities for the Obligated Group or repay Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds. In such event an amount equal to the Net Proceeds of any insurance relating thereto shall be deposited, when received, with the Master Trustee and such Member shall proceed forthwith to replace, repair, reconstruct, restore or improve Facilities of the Obligated Group or to acquire additional Facilities and will apply the Net Proceeds of any insurance relating to such damage or destruction received from the Master Trustee to the payment or reimbursement of the costs of such replacement, repair, reconstruction, restoration, improvement or acquisition or to the repayment of such Indebtedness. So long as the Members are not in default under the Master Indenture, any Net Proceeds of insurance relating to such damage or destruction received by the Master Trustee shall be released from time to time by the Master Trustee to such Member upon the receipt by the Master Trustee of:

1. the Written Request of such Member specifying the expenditures made or to be made or the Indebtedness incurred in connection with such replacement, repair, reconstruction, restoration, improvement or acquisition and stating that such Net Proceeds, together with any other moneys legally available for such purposes, will be sufficient to complete such replacement, repair, reconstruction, restoration, improvement or acquisition; and

2. if such expenditures were or are to be made or such Indebtedness was incurred for the construction or renovation of Facilities, the written approval of such Written Request by an independent architect.

It is further understood and agreed that in the event such Member shall elect option (a) above, such Member shall complete the replacement, repair, reconstruction, restoration, improvement and acquisition of the Facilities, whether or not the Net Proceeds of insurance received for such purposes are sufficient to pay for the same.

(b) The Member may elect to have all of the Net Proceeds payable as a result of such damage or destruction applied to the prepayment of the Master Notes. In such event such Member shall, in its notice of election to the Master Trustee, direct the Master Trustee to apply such Net Proceeds, when and as received, to the prepayment of Master Notes in accordance with the provisions of the Master Indenture.

(c) A Member may elect to have a portion of such Net Proceeds applied to the replacement, repair, reconstruction, restoration and improvement of the Facilities of the Obligated Group or the acquisition of additional Facilities for the Obligated Group or the repayment of Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds with the remainder of such Net Proceeds to be applied to prepay Master Notes, in which event such Net Proceeds to be used for replacement, repair, reconstruction, restoration, improvement and acquisition shall be applied as set forth in subparagraph (a) of this section and such Net Proceeds to be used for prepayment of the Master Notes shall be applied as set forth in subparagraph (b) of this section.

The Master Trustee will cooperate fully with the Members in the handling and conduct of any prospective or pending condemnation proceedings with respect to their Facilities or any part thereof. Each Member irrevocably assigns to the Master Trustee, as its interests may appear, all right, title and interest of such Member in and to any Net Proceeds of any award, compensation or damages payable in connection with any such condemnation or taking, or payment received in a sale transaction consummated under threat of condemnation (any such award, compensation, damages or payment being hereinafter referred to as an "award"), which exceeds the greater of (i) 3% of the Book Value or, at the option of the Obligated Group Representative, the Current Value of the Property, Plant and Equipment of the Obligated Group or (ii) \$500,000 plus an amount equal to \$500,000 multiplied by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from its level as of December 1, 2005. Such Net Proceeds shall be initially paid to the Master Trustee for disbursement or use as hereinafter provided. If such Net Proceeds do not exceed the greater of (i) 3% of the Book Value or, at the option of the Obligated Group Representative, the Current Value of the Property, Plant and Equipment of the Obligated Group or (ii) \$500,000 plus an amount equal to \$500,000 multiplied by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from its level as of December 1, 2005, such Net Proceeds may be paid to the Member in question. The Members covenant that they will expend or contract to expend an amount not less than the amount of any such Net Proceeds within 24 months of the receipt thereof to (i) restore, replace or repair the condemned Facilities, (ii) acquire or construct additional capital assets, or (iii) prepay Master Notes or repay the principal portion of Indebtedness incurred by one or more Members of the Obligated Group to acquire or construct capital assets or to refinance Indebtedness incurred for such purpose.

In the event such Net Proceeds exceed the greater of (i) 3% of the Book Value or, at the option of the Obligated Group Representative, the Current Value of the Property, Plant and Equipment of the Obligated Group or (ii) \$500,000 plus an amount equal to \$500,000 multiplied by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from its level as of December 1, 2005, the Member in question shall within 12 months after the date on which the Net Proceeds are finally determined elect by written notice of such election to the Master Trustee one of the following three options:

(a) The Member may elect to use the Net Proceeds of the award for restoration or replacement of or repairs and improvements to the Facilities of the Obligated Group or the acquisition of additional Facilities for the Obligated Group or the repayment of Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds. In such event, so long as the Obligated Group is not in default under the Master Indenture, such Member shall have the right to receive such Net Proceeds from the Master Trustee from time to time upon the receipt by the Master Trustee of:

1. the Written Request of such Member specifying the expenditures made or to be made or the Indebtedness incurred in connection with such restoration, replacement, repairs, improvements and acquisitions and stating that such Net Proceeds, together with any other moneys legally available for such purposes, will be sufficient to complete such restoration, replacement, repairs, improvements and acquisition; and

2. if such expenditures were or are to be made or such Indebtedness was incurred for the construction or renovation of Facilities, the written approval of such Written Request by an independent architect.

(b) A Member may elect to have such Net Proceeds of the award applied to the prepayment of the Master Notes. In such event such Member shall, in its notice of election to the Master Trustee, direct the Master Trustee to apply such Net Proceeds, when and as received, to the prepayment of Master Notes in accordance with the provisions of the Master Indenture.

(c) The Member may elect to have a portion of such Net Proceeds of the award applied to the repair, replacement, restoration and improvement of the Facilities of the Obligated Group or the acquisition of additional Facilities for the Obligated Group or the repayment of Indebtedness incurred for any such purpose pending the receipt of such Net Proceeds, with the remainder of such Net Proceeds to be applied to the prepayment of Master Notes, in which event such Net Proceeds to be used for repair, replacement, restoration, improvement and acquisition shall be applied as set forth in subparagraph (a) of this section and such Net Proceeds to be used for prepayment of the Master Notes shall be applied as set forth in subparagraph (b).

Merger, Consolidation, Sale or Conveyance

(a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor corporation to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) is a Person (other than a natural person) organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of

such successor corporation to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Master Notes according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture and the Mortgage to be kept and performed by such Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture;

(iii) Assuming that any Indebtedness of any successor or acquiring corporation is Indebtedness of such Member and that the Revenues and Expenses of the Member for such most recent Fiscal Year include the Revenues and Expenses of such other corporation (A) immediately after such merger or consolidation, sale or conveyance, the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which financial statements that have been reported upon by independent certified public accountants are available would be not less than 1.10:1 or that such Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group is not less than the Historical Debt Service Coverage Ratio of the Obligated Group was for such Fiscal Year prior to such merger or consolidation, sale or conveyance and (B) immediately after such merger or consolidation, sale or conveyance, the Days Cash on Hand of the Obligated Group as set forth on the most recent quarterly financial statements delivered to the Master Trustee pursuant to the Master Indenture hereof would be not less than 180 or that such calculation of Days Cash on Hand of the Obligated Group is greater than such calculation would be immediately prior to such merger or consolidation, sale or conveyance; and

(iv) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such Member. Each successor, assignee, surviving, resulting or transferee corporation of a Member must agree to become, and satisfy the conditions described in the Master Indenture to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's corporate status. Any successor corporation to such Member thereupon may cause to be signed and may issue in its own name Master Notes thereunder and the predecessor corporation shall be released from its obligations thereunder and under any Master Notes, if such predecessor corporation shall have conveyed all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Master Notes so issued by such successor corporation thereunder shall in all respects

have the same legal rank and benefit under the Master Indenture as Master Notes theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Master Notes had been issued thereunder by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Master Notes thereafter to be issued as may be appropriate.

(d) The Master Trustee may rely upon an opinion of Independent Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this section and that it is proper for the Master Trustee under the provisions of the Master Indenture and of this section to join in the execution of any instrument required to be executed and delivered by this section.

Financial Statements

(a) The Members covenant that they will keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Obligated Group in accordance with generally accepted principles of accounting consistently applied except as may be disclosed in the notes to the audited financial statements referred to in subparagraph (b) below. To the extent that generally accepted accounting principles would require consolidation of certain financial information of entities which are not Members of the Obligated Group with financial information of one or more Members, consolidated financial statements prepared in accordance with generally accepted accounting principles which include information with respect to entities which are not Members of the Obligated Group may be delivered in satisfaction of the requirements of this section so long as: (i) supplemental information in sufficient detail to separately identify the information with respect to the Members of the Obligated Group is delivered to the Master Trustee with the audited financial statements; (ii) such supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements delivered to the Master Trustee and, in the opinion of the accountant, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole; and (iii) such supplemental information is used for the purposes thereof or for any agreement, document or certificate executed and delivered in connection or pursuant to the Master Indenture.

(b) The Obligated Group Representative will furnish or cause to be furnished to the Master Trustee, the Initial Purchaser, each Related Bond Trustee, all nationally recognized municipal securities information repositories identified by the Securities and Exchange Commission, the Authority (provided that the Authority will be provided only the items set forth in subparagraph (iii) and (iv) below unless the Authority requests other information being provided in accordance with this section), and all Bondholders who hold \$500,000 or more of any Related Bonds and request such reports in writing (which written request shall include a certification as to such ownership) (collectively, "Required Information Recipients"), the following:

(i) Beginning December 31, 2005 as soon as practicable after it is available but in no event more than 45 days after the completion of such fiscal quarter: (A) quarterly unaudited financial statements of the Obligated Group (including a report with respect to the fourth quarter of each Fiscal Year) which shall include a combined or combining statement of revenues and expenses and statement of cash flows of the Obligated Group during such period, a combined or combining balance sheet as of the end of each such fiscal quarter, which, in each case, shall include comparisons to the annual budget of the Obligated Group provided pursuant to subsection (iv) below, and (B) a calculation of Days Cash on Hand as of the last day of such quarter and the Historical Debt Service Coverage Ratio of the Obligated Group for such quarter.

(ii) If the Historical Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.00:1 and the Days Cash on Hand of the Obligated Group is less than 180 days for any Testing Date as provided in the Master Indenture, the Obligated Group will deliver the financial information and the calculations described in paragraph (i) above on a monthly basis within 45 days of the end of each month until the Historical Debt Service Coverage Ratio of the Obligated Group is at least 1.00:1 and the Days Cash on Hand of the Obligated Group is at least equal to 180 days.

(iii) Within 150 days of the end of each Fiscal Year, an annual audited financial report of the Obligated Group prepared by a firm of certified public accountants, including a combined and an unaudited combining balance sheet as of the end of such Fiscal Year and a combined and an unaudited combining statement of changes in fund balances for such Fiscal Year and a combined and an unaudited combining statement of revenues and expenses for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing calculations of the Obligated Group's Historical Debt Service Coverage Ratio for said Fiscal Year and of the Obligated Group's Days Cash on Hand as of the last day of such Fiscal Year and a statement that such accountants have no knowledge of any default under the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof.

(iv) On or before the date of delivery of the financial reports referred to in subsection (iii) above, an Officer's Certificate of the Obligated Group Representative (A) stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof, (B) calculating and certifying Days Cash on Hand, and Historical Debt Service Coverage Ratio, to be calculated for such Fiscal Year, as of the end of such fiscal period or Fiscal Year, as appropriate and (C) attaching a copy of the Obligated Group's annual operating and capital budget for such Fiscal Year.

(v) Copies of (A) any board approved revisions to the annual budget provided pursuant to subsection (iv) above, or (B) any correspondence to or from the Internal Revenue Service questioning or contesting the status of a Member as an organization described in Section 501(c)(3) of the Code or with respect to the tax-exempt status of the

Related Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes, promptly upon receipt.

(c) The Obligated Group Representative shall furnish or cause to be furnished to the Master Trustee or any Related Bond Trustee, such additional information as the Master Trustee or any Related Bond Trustee may reasonably request concerning any Member in order to enable the Master Trustee or such Related Bond Trustee to determine whether the covenants, terms and provisions of the Master Indenture have been complied with by the Members and for that purpose all pertinent books, documents and vouchers relating to the business, affairs and Property (other than patient, donor and personnel records) of the Members shall, to the extent permitted by law, at all times during regular business hours be open to the inspection of such accountant or other agent (who may make copies of all or any part thereof) as shall from time to time be designated by the Master Trustee or such Related Bond Trustee.

(d) The Members also agree that, within 10 days after its receipt thereof, the Obligated Group Representative will file with the Master Trustee and each Required Information Recipient a copy of each Consultant's report or counsel's opinion required to be prepared under the terms of the Master Indenture. The Master Trustee shall, on behalf of the Obligated Group Representative, provide copies of such items to the Required Information Recipients.

(e) The Obligated Group Representative shall give prompt written notice of a change of accountants by the Obligated Group to the Master Trustee and each Related Bond Trustee. The notice shall state (i) the effective date of such change; (ii) whether there were any unresolved disagreements with the former accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which the accountants claimed would have caused them to refer to the disagreement in a report on the disputed matter, if it was not resolved to their satisfaction; and (iii) such additional information relating thereto as such Related Bond Trustee or the Master Trustee may reasonably request.

(f) Without limiting the foregoing, each Member will permit, upon reasonable notice, the Master Trustee or any such Related Bond Trustee (or such persons as they may designate) to visit and inspect, at the expense of such Person, its Property and to discuss the affairs, finances and accounts of the Obligated Group with its officers and independent accountants, all at such reasonable times and locations and as often as the Master Trustee or such Related Bond Trustee may reasonably desire.

(g) The Obligated Group Representative may designate a different Fiscal Year for the Members of the Obligated Group by delivering a notice to the Master Trustee designating the first and last day of such new Fiscal Year and whether or not there will be any interim fiscal period (the "Interim Period") of a duration of greater than or less than 12 months preceding such new Fiscal Year. The Members covenant that they will furnish to the Master Trustee and each Related Bond Trustee, as soon as practicable after they are available, but in no event more than 150 days after the last day of such Interim Period, a financial report for such Interim Period certified by a firm of independent

certified public accountants selected by the Obligated Group Representative covering the operations of the Obligated Group for such Interim Period and containing a combined balance sheet as of the end of such Interim Period and a combined statement of changes in fund balances and changes in financial position for such Interim Period and a combined statement of revenues and expenses for such Interim Period, showing in each case in comparative form the financial figures for the comparable period in the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing a calculation of the Obligated Group's Historical Debt Service Coverage Ratio for the Interim Period and a statement that such accountants have obtained no knowledge of any default by any Member in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

Permitted Additional Indebtedness

So long as any Master Notes are outstanding, the Obligated Group will not incur any Additional Indebtedness (whether or not incurred through the issuance of Additional Notes) other than:

(A) Funded Indebtedness, if prior to incurrence thereof or, if such Funded Indebtedness was incurred in accordance with the Master Indenture and any Member wishes to have such Indebtedness classified as having been issued under this subsection (A), prior to such classification, there is delivered to the Master Trustee:

(i) An Officer's Certificate stating that the Historical Pro Forma Debt Service Coverage Ratio of the Obligated Group for the most recent two Fiscal Years preceding the date of delivery of the report for which combined financial statements reported upon by independent certified public accountants are available was not less than 1.10:1 or for the most recent Fiscal Year preceding the date of delivery of the report for which combined financial statements reported upon by independent certified public accountants are available was not less than 1.20:1; or

(ii) (A) An Officer's Certificate stating that the Historical Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year preceding the date of delivery of the report for which combined financial statements reported upon by independent certified public accountants are available was not less than 1.10:1; and (b) a written Consultant's report (which report is acceptable to the Master Trustee) to the effect that the Projected Debt Service Coverage Ratio of the Obligated Group is not less than 1.10:1 for the next succeeding Fiscal Year following the later of (I) the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of such Additional Indebtedness, or (II) the Fiscal Year in which such Funded Indebtedness for other purposes is being incurred; provided that such report shall include forecast balance sheets, statements of revenues and expenses and statements of changes in financial position for such Fiscal Year and a statement of the relevant

assumptions upon which such forecasted statements are based, which financial statements must indicate that sufficient revenues and cash flow could be generated to pay the operating expenses of the Obligated Group's proposed and existing Facilities and the debt service on the Obligated Group's other existing Indebtedness during such Fiscal Year.

(B) Completion Funded Indebtedness if there is delivered to the Master Trustee: (i) an Officer's Certificate of the Member for whose benefit such Indebtedness is being issued stating that at the time the original Funded Indebtedness for the Facilities to be completed was incurred, such Member had reason to believe that the proceeds of such Funded Indebtedness together with other moneys then expected to be available would provide sufficient moneys for the completion of such Facilities, (ii) a statement of an independent architect or an expert acceptable to the Master Trustee setting forth the amount estimated to be needed to complete the Facilities, and (iii) an Officer's Certificate of such Member stating that the proceeds of such Completion Funded Indebtedness to be applied to the completion of the Facilities, together with a reasonable estimate of investment income to be earned on such proceeds and available to pay such costs, the amount of moneys, if any, committed to such completion from available cash or marketable securities and reasonably estimated earnings thereon, enumerated loans from Affiliates or bank loans (including letters or lines of credit) and federal or state grants reasonably expected to be available, will be in an amount not less than the amount set forth in the statement of an independent architect or other expert, as the case may be, referred to in (ii), which amount shall be no more than 10% of Funded Indebtedness originally incurred to finance the construction of such Facilities.

(C) Funded Indebtedness for the purpose of refunding (whether in advance or otherwise, including without limitation refunding through the issuance of Cross-over Refunding Indebtedness) any outstanding Funded Indebtedness if prior to the incurrence thereof an Officer's Certificate of a Member is delivered to the Master Trustee stating that, taking into account the issuance of the proposed Funded Indebtedness and the application of the proceeds thereof and any other funds available to be applied to such refunding, the Maximum Annual Debt Service Requirement of the Obligated Group will not be increased by more than 10%.

(D) Short-Term Indebtedness (other than accounts payable under subsection (H) below), in a total principal amount which at the time incurred does not, together with the principal amount of all other such Short-Term Indebtedness of the Obligated Group then outstanding under this subsection (D) but excluding the principal payable on all Funded Indebtedness during the next succeeding 12 months and also excluding such principal to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increments to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal, exceed 10% of the Revenues of the Obligated Group for the most recent Fiscal Year for which financial statements reported upon by

independent certified public accountants are available; provided, however, that for a period of 20 consecutive calendar days in each Fiscal Year the total amount of such Short-Term Indebtedness of the Obligated Group outstanding under this subsection (D) shall be not more than 5% of the Revenues of the Obligated Group during the preceding Fiscal Year plus such additional amount as the Obligated Group Representative certifies in an Officer's Certificate is (a) attributable to Short-Term Indebtedness incurred to offset a temporary delay in the receipt of funds due from third party payors and (b) in the minimum amount reasonably practicable taking into account such delay. For the purposes of this subsection, Short-Term Indebtedness shall not include overdrafts to banks to the extent there are immediately available funds of the Obligated Group sufficient to pay such overdrafts and such overdrafts are incurred and corrected in the normal course of business.

(E) Balloon Indebtedness if:

(i) (1) there is in effect at the time such Balloon Indebtedness is incurred a binding commitment (including without limitation letters or lines of credit or insurance) which may be subject only to commercially reasonable contingencies by a financial institution or bond insurer or surety generally regarded as responsible, to provide financing sufficient to pay the principal amount of such Balloon Indebtedness coming due in each consecutive 12-month period in which 25% or more of the original principal amount of such Balloon Indebtedness comes due; and

(2) the conditions set forth in the Master Indenture are met for any Fiscal Year in which 25% or more of the original principal amount of such Balloon Indebtedness comes due when it is assumed that (a) the portion of Balloon Indebtedness coming due in such Fiscal Year matures over 30 years from the date of issuance of the Balloon Indebtedness, bears interest on the unpaid balance at the Projected Rate and is payable on a level annual debt service basis over a period of no more than 30 years or (b) the portion of Balloon Indebtedness coming due in such Fiscal Year matures according to its actual principal amortization schedule, bears interest on the unpaid balance at the Projected Rate, but this subsection (b) shall only be used if the amortization of all Indebtedness of the Obligated Group outstanding, when the Balloon Indebtedness debt service being calculated is calculated according to this subsection (b) varies no more than 10% per year or (c) the portion of Balloon Indebtedness coming due in such Fiscal Year bears interest at the Projected Rate and matures according to the principal amortization schedule set forth in the binding commitment described in subsection (1) above; or

(ii) the aggregate principal amount of all Balloon Indebtedness issued pursuant to subsection (E) does not exceed 10% of the Revenues of the Obligated Group for the most recent Fiscal Year for which financial statements reported upon by independent certified public accountants are available; or

(iii) the Balloon Indebtedness to be incurred has a remaining term of five years or greater beginning in such fiscal year, and

(1) the Member incurring such Balloon Indebtedness establishes in an Officer's Certificate filed with the Master Trustee an amortization schedule for such Balloon Indebtedness, which amortization schedule shall provide for payments of principal and interest for each Fiscal Year that are not less than the amounts required to make any actual payments required to be made in such Fiscal Year by the terms of such Balloon Indebtedness;

(2) such Member agrees in such Officer's Certificate to deposit each Fiscal Year with a bank or trust company (pursuant to an agreement between such Member and such bank or trust company, which agreement shall be satisfactory in form and substance to the Master Trustee) the amount of principal shown on such amortization schedule net of any amount of principal actually paid on such Balloon Indebtedness during such Fiscal Year (other than from amounts on deposit with such bank or trust company) which deposit shall be made prior to any such required actual payment during such Fiscal Year if the amounts so on deposit are intended to be the source of such actual payments; and

(3) the conditions described in subsection (A) above are met with respect to such Balloon Indebtedness when it is assumed that such Balloon Indebtedness is actually payable in accordance with such amortization schedule.

(F) Put Indebtedness if:

(i) the amount of such Put Indebtedness does not exceed 10% of the Revenues of the Obligated Group for the most recent Fiscal Year for which financial statements reported upon by independent certified public accountants are available and the conditions set forth in subsection (A) above are met with respect to such Put Indebtedness when it is assumed that (a) such Put Indebtedness bears interest at the Projected Rate and is payable on a level annual debt service basis over a period of no more than 30 years commencing with the next succeeding Put Date, or (b) such Put Indebtedness bears interest at the Projected Rate and is payable according to its actual principal amortization schedule, but this subsection (b) shall only be used if the debt service of all Indebtedness of the Obligated Group outstanding, when the Put Indebtedness debt service being calculated is calculated according to this subsection (b) varies no more than 10% per year or (c) such Put Indebtedness bears interest at the Projected Rate and is payable according to the principal amortization schedule set forth in a binding commitment of the type described in clause (F)(ii)(1) below; or

(ii) (1) there is in effect at any time such Put Indebtedness is incurred a binding commitment (including without limitation letters or lines of credit or insurance) which may be subject only to commercially reasonable contingencies by a financial institution or bond insurer or surety generally regarded as responsible, to provide financing sufficient to pay the principal amount of such Put Indebtedness on any Put Date, and (2) the conditions set forth in subsection (A) are met for any Fiscal Year in

which 25% or more of the original principal amount of such Put Indebtedness may come due when it is assumed that (a) the portion of Put Indebtedness which may come due in such Fiscal Year matures over 30 years from the date of issuance of the Put Indebtedness, bears interest on the unpaid balance at the Projected Rate and is payable on a level annual debt service basis over a period of no more than 30 years or (b) the portion of Put Indebtedness which may come due in such Fiscal Year matures according to its actual principal amortization schedule and bears interest on the unpaid balance at the Projected Rate, but this subsection (b) shall only be used if the amortization of all Indebtedness of the Obligated Group outstanding, when the Put Indebtedness debt service being calculated is calculated according to this subsection (b), varies no more than 10% per year or (c) such Put Indebtedness bears interest at the Projected Rate and is payable according to the principal amortization schedule set forth in a binding commitment of the type described in clause (1) above; or

(iii) the aggregate principal amount of all Put Indebtedness issued pursuant to subsection (F) does not exceed 10% of the Revenues of the Obligated Group for the most recent Fiscal Year for which financial statements reported on by independent certified public accountants are available.

(G) Liabilities for contributions to self-insurance or shared or pooled risk insurance programs required or permitted to be maintained under the Master Indenture.

(H) Indebtedness consisting of accounts payable incurred in the ordinary course of business or other Indebtedness not incurred or assumed primarily to assure the repayment of money borrowed or credit extended which Indebtedness is incurred in the ordinary course of business, including but not limited to deferred obligations for the refund or repayment of Entrance Fees.

(I) Indebtedness incurred in connection with a sale or pledge of accounts receivable with or without recourse by any Member consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such Indebtedness permitted hereby shall not exceed the aggregate sale price of such accounts receivable received by such Member.

(J) Non-Recourse Indebtedness, without limit.

(K) Extendable Indebtedness if the conditions set forth in subsection (A) above are met when it is assumed that (i) such Indebtedness bears interest at the Projected Rate and is amortized on a level debt service basis over a term equal to the remaining term of the Extendable Indebtedness or (ii) such Indebtedness bears interest at the Projected Rate and is payable in accordance with its actual amortization schedule, but only if the debt service on all Indebtedness of the Obligated Group Outstanding when the Extendable Indebtedness debt service being calculated is calculated in accordance with this subsection (ii), varies by no more than 10% per year.

(L) Subordinated Indebtedness, without limit.

(M) Commitment Indebtedness, without limit.

(N) Indebtedness the principal amount of which at the time incurred, together with the aggregate principal amount of all other Indebtedness then outstanding which was issued pursuant to the provisions of this subsection (N) and which has not been subsequently reclassified as having been issued under subsection (A), (D), (E) or (F), does not exceed 10% of the Revenues of the Obligated Group for the latest preceding Fiscal Year for which financial statements reported upon by independent certified public accountants are available provided, however, that the total amount of all Indebtedness outstanding which was issued pursuant to the provisions of subsections (D), (E)(ii), (F)(iii) and this subsection (N) shall not exceed 15% of the Revenues of the Obligated Group for the most recent Fiscal Year for which financial statements reported on by independent certified public accounts are available.

Each Member covenants that Indebtedness of the type permitted to be incurred under subsection (H) above will not be allowed to become overdue for a period in excess of that which is ordinary for similar institutions without being contested in good faith and by appropriate proceedings.

Each Member covenants that prior to, or as soon as reasonably practicable after, the incurrence of Indebtedness by such Member for money borrowed or credit extended, or the equivalent thereof, after the date of issuance of the Series 2005 Note, it will deliver to the Master Trustee an Officer's Certificate which identifies the Indebtedness incurred, identifies the subsection of the Master Indenture pursuant to which such Indebtedness was incurred, demonstrates compliance with the provisions of such subsection and attaches a copy of the instrument evidencing such Indebtedness; provided, however, that this requirement shall not apply to Indebtedness incurred pursuant to subsection (G) or (H) above.

Each Member agrees that, prior to incurring Additional Indebtedness for money borrowed from or credit extended by entities other than Related Issuers, sellers of real or personal property for purchase money debt, lessors of such property or banks or other institutional lenders, it will provide the Master Trustee with an opinion of Independent Counsel acceptable to the Master Trustee to the effect that, to such Counsel's knowledge, such Member has complied in all material respects with all applicable state and federal laws regarding the sale of securities in connection with the incurrence of such Additional Indebtedness (including the issuance of any securities or other evidences of indebtedness in connection therewith) and such Counsel has no reason to believe that a right of rescission under such laws exists on the part of the entities to which such Additional Indebtedness is to be incurred.

The provisions of the Master Indenture notwithstanding, the Members of the Obligated Group may not incur any Additional Indebtedness the proceeds of which will be used for the acquisition of real Property or the construction of any Facilities unless the right, title and interest in any assets to be financed or refinanced with the proceeds of such Additional Indebtedness and the real estate upon which such assets will be located have been mortgaged and assigned to the

Master Trustee pursuant to a mortgage or deed of trust in substantially the form of the Mortgage and such assets and real estate are not subject to any other Lien except for Permitted Encumbrances.

Calculation of Debt Service Coverage

In the case of Balloon or Put Indebtedness issued pursuant to paragraph (E) or (F) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Permitted Additional Indebtedness" above, unless such Indebtedness is reclassified pursuant to the Master Indenture, the amortization schedule of such Indebtedness and the debt service payable with respect to such Indebtedness for future periods shall be calculated on the assumption that such Indebtedness is being issued simultaneously with such calculation. With respect to Put Indebtedness, if the option of the holder to require that such Indebtedness be paid, purchased or redeemed prior to its stated maturity date, or if the requirement that such Indebtedness be paid, purchased or redeemed prior to its stated maturity date (other than at the option of such holder and other than pursuant to any mandatory sinking fund or any similar fund), has expired or lapsed as of the date of calculation, such Put Indebtedness shall be deemed payable in accordance with its terms.

In determining the amount of debt service payable on Indebtedness, if the terms of the Indebtedness being considered are such that interest thereon for any future period of time is expressed to be calculated at a varying rate per annum, a formula rate or a fixed rate per annum based on a varying index, then for the purpose of making such determination of debt service, interest on such Indebtedness for such period (the "Determination Period") shall be computed by assuming that the rate of interest applicable to the Determination Period is equal to the average of the rate of interest (calculated in the manner in which the rate of interest for the Determination Period is expressed to be calculated) which was in effect on the last date of each of the twelve full calendar months immediately preceding the month in which such calculation is made; provided that if the index or other basis for calculating such interest was not in existence for at least twelve full calendar months next preceding the date of calculation, the rate of interest for such period shall be deemed to be the average rate of interest that was in effect on the last day of each full calendar month next preceding the date of calculation; and if the average rate of interest borne by such Indebtedness for such shorter period cannot be calculated, the rate of interest for such period shall be deemed to be the Projected Rate. No debt service shall be deemed payable upon the exercise by a holder of Extendable Indebtedness of the option to tender such Indebtedness for payment.

Master Notes issued to secure Indebtedness permitted to be incurred under the Master Indenture shall not be treated as Additional Indebtedness in a manner which would require such Indebtedness to be included more than one time in the calculations performed under the Master Indenture.

No debt service shall be deemed payable with respect to Commitment Indebtedness until such time as funding occurs under the commitment which gave rise to such Commitment Indebtedness. From and after such funding, the amount of such debt service shall be calculated in accordance with the actual amount required to be repaid on such Commitment Indebtedness and the actual interest rate and amortization schedule applicable thereto. No Additional

Indebtedness shall be deemed to arise when any funding occurs under any such commitment or any such commitment is renewed upon terms which provide for substantially the same terms of repayment of amounts disbursed pursuant to such commitment as obtained prior to such renewal. In addition, no Additional Indebtedness shall be deemed to arise when Indebtedness which bears interest at a variable rate of interest is converted to Indebtedness which bears interest at a fixed rate or the method of computing the variable rate on such Indebtedness is changed or the terms upon which Indebtedness, if Put Indebtedness, may be or is required to be tendered for purchase are changed, if such conversion or change is in accordance with the provisions applicable to such variable rate Indebtedness or Put Indebtedness in effect immediately prior to such conversion or change.

For the purpose of determining whether any particular Guaranty may be incurred, it shall be assumed that 100% of the Indebtedness guaranteed is Funded Indebtedness of the guarantor under such Guaranty. For the purpose of calculating any historical Debt Service Requirements, the guarantor's Debt Service Requirements under a Guaranty shall be deemed to be the actual amount paid on such Guaranty by the guarantor. For any other purpose, a guarantor shall be considered liable only for 20% of the annual debt service requirement on the Indebtedness guaranteed; provided, however, if the guarantor has been required by reason of its guaranty to make a payment in respect of such Indebtedness within the immediately preceding 24 months, the guarantor shall be considered liable for 100% of the annual debt service requirement on the Indebtedness guaranteed.

For purposes of the various calculations required under the Master Indenture for Capitalized Leases, the Capitalized Rentals under a Capitalized Lease at the time of such calculation shall be deemed to be the principal payable thereon.

Anything in the Master Indenture to the contrary notwithstanding, any portion of any Indebtedness of any Member for which an Interest Rate Agreement has been obtained by such Member shall be deemed to bear interest for the period of time that such Interest Rate Agreement is in effect at a net rate which takes into account the interest payments made by such Member on such Indebtedness and the payments made or received by such Member on such Interest Rate Agreement; provided that the long-term credit rating of the provider of such Interest Rate Agreement (or any guarantor thereof) is in one of the three highest rating categories of any Rating Agency (without regard to any refinements of gradation of rating category by numerical modifier or otherwise) or is at least as high as that of the Obligated Group. For the purposes of determining the Debt Service Requirements for any future period of time with respect to any Indebtedness subject to an Interest Rate Agreement satisfying the requirements of the preceding sentence (i) if the Member is required to pay a fixed rate of interest under the Interest Rate Agreement, such Indebtedness shall be deemed to bear interest at such fixed rates and (ii) if the Member is required to pay interest at a variable rate under the Interest Rate Agreement, Debt Service Requirements on such Indebtedness shall be calculated in accordance with the Master Indenture. In addition, so long as any Indebtedness is deemed to bear interest at a rate taking into account an Interest Rate Agreement, any payments made by a Member on such Interest Rate Agreement shall be excluded from Expenses and any payments received by a Member on such Interest Rate Agreement shall be excluded from Revenues, in each case, for all purposes of the Master Indenture.

Liens on Property

A Lien on Property of any Member securing Indebtedness (or Interest Rate Agreements) shall be classified a Permitted Encumbrance (as provided in clause (b) of the definition thereof) and therefore be permitted if:

- (i) such Lien secures Non-Recourse Indebtedness; or
- (ii) (ii) (a) after giving effect to such Lien and all other Liens classified as Permitted Encumbrances under this subsection (2)(a), the Book Value or, at the option of the Obligated Group Representative, the Current Value of the Property of the Obligated Group which is Encumbered is not more than 10% of the value of all of the Property of the Obligated Group (calculated on the same basis as the value of the Encumbered Property) and (b) the conditions described in the Master Indenture are met for allowing the incurrence of one dollar of additional Funded Indebtedness.

Sale, Lease or Other Disposition of Property

Each Member agrees that it will not, in any consecutive 12-month period, sell, lease or otherwise dispose (including without limitation any involuntary disposition) of Property (either real or personal property, including cash and investments) unless the Obligated Group Representative determines that the Property has been transferred in one or more of the following transfers or other dispositions of Property:

- (A) In return for other Property of equal or greater value and usefulness;
- (B) In the ordinary course of business upon fair and reasonable terms;
- (C) To any Person, if prior to such sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of a Member stating that, in the judgment of the signer, such Property has, or within the next succeeding 24 calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;
- (D) From a Member to another Member; provided, however that none of the Land or any other Property financed with the proceeds of the Related Bonds shall be transferred by the Corporation to any other Member unless the Bond Trustee has received an Opinion of Bond Counsel to the effect that such transfer shall not adversely affect the validity of the Related Bonds or, with respect to any tax-exempt bonds, any exemption from federal income taxation to which such Related Bonds would otherwise be entitled;
- (E) Upon fair and reasonable terms no less favorable to the Member than would be obtained in a comparable arm's-length transaction;

(F) The Property sold, leased or otherwise disposed of does not, for any consecutive 12-month period, exceed 3% of the total assets of the Obligated Group (as shown on the most recent audited financial statements of the Obligated Group) and (i) the Historical Debt Service Coverage Ratio was not less than 1.20:1 for the last Fiscal Year for which audited financial statements have been delivered to the Master Trustee, and (ii) as of the end of the last fiscal quarter for which financial statements have been delivered to the Master Trustee as required under the Master Indenture, the Obligated Group had not less than 180 Days' Cash on Hand after giving effect to the transaction. If the Historical Debt Service Coverage Ratio is not less than 1.20:1, the foregoing percentage of the total assets may be increased as follows under the following conditions:

(1) to 5%, if Days' Cash on Hand would not be less than 200 after the effect of such sale, lease or disposition of assets; or

(2) to 10%, if Days' Cash on Hand would not be less than 300 after the effect of such sale, lease or disposition of assets; or

(3) to 15%, if Days' Cash on Hand would not be less than 400 after the effect of such sale, lease or disposition of assets;

(G) To any Person, if such Property consists solely of assets which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment on the Master Notes; and

(H) If the amount of such Property sold, leased or otherwise disposed of does not, for any consecutive twelve month period, exceed 1% of the total Book Value (or Current Value if the Obligated Group Representative so elects) of all Property of the Obligated Group.

If the Property to be disposed in accordance with this section is Mortgaged Property, the Master Trustee shall, upon the request of the Obligated Group Representative, release such Mortgaged Property from the Mortgage pursuant to the terms of the Mortgage.

Notwithstanding the foregoing, the Members may transfer Property (either real or personal property, including cash and investments) in an aggregate amount not to exceed \$7,500,000 on or before January 1, 2007 to any Person in addition to the transfers described above.

Other Covenants of the Members

The Members covenant to, among other things (a) pay all taxes, assessments and charges and comply with all present and future laws, rules, orders and regulations; provided that under certain circumstances such Member has the right and privilege to contest any of the foregoing; (b) maintain their Property in good condition, repair and working order, and from time to time make all necessary and proper repairs and replacements thereto as it judges necessary; (c) procure and maintain all necessary licenses and permits and maintain the status of their health care Facilities as a provider of services eligible for participation in those reimbursement

programs which the Members determine are appropriate, except to the extent the Members shall determine in good faith that maintenance of such status is not in their best interest and that lack of such status will not materially impair the Members ability to pay their Indebtedness when due; and (d) file certain financial information periodically with the Master Trustee.

Defaults And Remedies

Each of the following events is considered an "event of default" under the Master Indenture:

(a) failure of the Obligated Group to pay any installment of interest or principal, or any premium, on any Master Note when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise; or

(b) failure of any Member to comply with, observe or perform any of the covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 30 days after written notice thereof to such Member and the Obligated Group Representative from the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Notes, provided that, if in the judgment of the Master Trustee, such default cannot with due diligence and dispatch be wholly cured so that such failure no longer constitutes an "event of default" under the Master Indenture within 30 days but can be wholly cured, the failure of the Member to remedy such default within such 30-day period shall not constitute a default thereunder if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default shall thereafter prosecute and complete the same with due diligence and dispatch; or

(c) any representation or warranty made by any Member or in any statement or certificate furnished to the Master Trustee or the purchaser of any Master Note in connection with the sale of any Master Note or furnished by any Member pursuant to the Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Obligated Group Representative by the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Notes; provided that, if in the judgment of the Master Trustee, such default cannot with due diligence and dispatch be wholly cured so that such failure no longer constitutes an "event of default" under the Master Indenture within 30 days but can be wholly cured, the failure of the Member to remedy such default within such 30-day period shall not constitute a default thereunder if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(d) default in the payment of the principal of, premium, if any, or interest on any Indebtedness for borrowed money of any Member, including without limitation any Indebtedness created by any Related Loan Document, as and when the same shall

become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Master Note) of any Member, and which default in payment or event of default entitles the holder thereof to declare or, in the case of any Master Note, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by a Master Note or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an "event of default" thereunder unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds the greater of \$250,000 or 1% of unrestricted net assets of the Obligated Group;

(e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 90 days; provided, however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds the greater of \$250,000 or 1% of the unrestricted net assets of the Obligated Group; or

(f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 90 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member (other than bankruptcy proceedings instituted by any Member against third parties), and if instituted against any Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 90 days after such institution; or

(i) payment of any installment of interest or principal, or any premium, on any Related Bond shall not be made when the same shall become due and payable under the provisions of any Related Bond Indenture; or

(j) any event of default shall occur under the Mortgage or any mortgage executed pursuant to the Master Indenture.

If an event of default has occurred and is continuing, the Master Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of Outstanding Notes or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by a Master Note due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Representative, declare the entire principal amount of all Master Notes then outstanding thereunder and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable, subject, however, to the provisions of the Master Indenture with respect to waivers of events of default.

Upon the occurrence of any event of default, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Master Notes outstanding under the Master Indenture and any other sums due thereunder and may collect such sums in the manner provided by law out of the Property or the Excluded Property of any Member wherever situated.

If an event of default shall have occurred, and if it shall have been requested so to do by either the holders of 25% or more in aggregate principal amount of Master Notes outstanding or the holder of an Accelerable Instrument who requested or was entitled to request pursuant to the Master Indenture that the Master Trustee accelerate the Master Notes and if it shall have been indemnified as provided in the Master Indenture the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this section as the Master Trustee shall deem most expedient in the interests of the holders of Master Notes; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so requested may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Master Notes not parties to such request.

No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee (or to the holders of Master Notes) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Master Trustee or to the holders of Master Notes thereunder now or thereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or event of default under the Master Indenture, whether by the Master Trustee or by the holders of Master Notes, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon.

Supplemental Master Indentures

Subject to the limitations set forth in the Master Indenture, the Members and the Master Trustee may, but without the consent of, or notice to, any of the Master Noteholders, amend or supplement the Master Indenture or the Mortgage for any one or more of the following purposes:

- (a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or the Mortgage or adversely affect the holder of any Master Note;
- (b) To grant to or confer upon the Master Trustee for the benefit of the Master Noteholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Master Noteholders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Master Noteholders or to surrender any right or power conferred under the Master Indenture or under the Mortgage upon any Member;
- (c) To assign and pledge under the Master Indenture or the Mortgage any additional revenues, properties or collateral;
- (d) To evidence the succession of another corporation to the agreements of a Member or the Master Trustee, or the successor of any thereof;
- (e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Master Notes for sale under the securities laws of any state of the United States;
- (f) To provide for the refunding or advance refunding of any Master Note;
- (g) To provide for the issuance of Additional Notes;
- (h) To reflect the addition to or withdrawal of a Member from the Obligated Group;
- (i) To provide for the issuance of Master Notes with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Notes;
- (j) To permit a Master Note to be secured by security which is not extended to all Master Noteholders;
- (k) To permit the issuance of Master Notes which are not in the form of a promissory note;
- (l) Provide for the release in accordance with the provisions of the Mortgage of any Property subject to the lien of such Mortgage; and

(m) To make any other change which, in the opinion of the Master Trustee, does not materially adversely affect the holders of any of the Master Notes and, in the opinion of each Related Bond Trustee, does not materially adversely affect the holders of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental thereto or the Mortgage or any amendment thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

Any Supplemental Master Indenture providing for the issuance of Additional Notes shall set forth the date thereof, the date or dates upon which principal of, premium, if any, and interest on such Master Notes shall be payable, the other terms and conditions of such Master Notes, the form of such Master Notes and the conditions precedent to the delivery of such Master Notes which shall include, among other things:

(a) delivery to the Master Trustee of all materials required to be delivered as a condition precedent to the incurrence of the Additional Indebtedness evidenced by such Master Notes;

(b) delivery to the Master Trustee of an opinion of Independent Counsel acceptable to the Master Trustee to the effect that all requirements and conditions to the issuance of such Master Notes, if any, set forth in the Master Indenture and in the Supplemental Master Indenture have been complied with and satisfied; and

(c) delivery to the Master Trustee of an opinion of Independent Counsel acceptable to the Master Trustee to the effect that registration of such Master Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Obligated Group has complied with all applicable provisions of said Act.

If at any time the Obligated Group Representative shall request the Master Trustee to enter into any Supplemental Master Indenture pursuant to subsection (l) above, the Master Trustee shall cause notice of the proposed execution of such Supplemental Master Indenture to be given to each Rating Agency then maintaining a rating on any Master Notes or Related Bonds, in the manner provided in the Master Indenture at least 15 days prior to the execution of such Supplemental Master Indenture, which notice shall include a copy of the proposed Supplemental Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2005 SUPPLEMENTAL INDENTURE

Under the Series 2005 Supplemental Indenture there is created a promissory note known as the Series 2005 Note, executed, authenticated and delivered in accordance with the terms of the Master Indenture.

Prepayment. The Series 2005 Note and its principal installments shall be subject to prepayment, at the times and in the manner provided with respect to the redemption of the Series 2005 Bonds under the redemption provisions of the Bond Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

Limited Obligations

All Bonds Equally and Ratably Secured; Bonds Not an Obligation of Authority. All Bonds issued under the Bond Indenture shall be limited obligations of the Authority payable solely from the security and shall be a valid claim of the Bondholders only against the security provided for in the Bond Indenture which security shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, except as may be otherwise provided in the Bond Indenture. The Bonds are issued pursuant to the provisions of the Act and the Bonds and the obligation to pay the principal thereof, premium, if any, and interest thereon shall not be deemed to constitute an indebtedness of the Authority or a loan of credit thereof, the State or any political subdivision thereof, or a charge against their general credit or taxing powers, within the meaning of any constitutional or statutory provision. No holder shall have the right to compel any exercise of the power of the Authority to pay the principal of the Bonds, premium, if any, or the interest thereon, except from funds available for such payment held pursuant to the Bond Indenture.

No recourse shall be had for the payment of the principal of or premium or interest on any of the Series 2005 Bonds or for any claim based thereon, or upon any obligation, covenant or agreement contained in the Master Indenture, the Bond Indenture, the Loan Agreement or the Series 2005 Bonds against any past, present or future officer, director, trustee, member, employee or agent of the Authority, or any officer, director, trustee, member, employee or agent of any successor entity, as such, either directly or through the Authority, or any successor entity, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, directors, trustees, members, employees and agents, as such, is hereby expressly waived and released as a condition of and in consideration for the execution of the Bond Indenture and the Loan Agreement and the issuance of the Series 2005 Bonds.

Revenues and Funds

Application of Proceeds of Series 2005 Bonds.

(a) The Authority will sell and cause to be delivered to the initial purchasers thereto the Series 2005 Bonds and will deliver the proceeds thereof to the Bond Trustee. The foregoing will be deposited in the following funds and accounts:

- (1) the Debt Service Reserve Fund;
- (2) the Refunding Account of the Project Fund; and
- (3) the Cost of Issuance Fund.
- (4) the Project Account of the Project Fund.

Creation of Bond Fund. There is hereby created by the Bond Indenture a trust fund to be designated as the "Indiana Health and Educational Facility Financing Authority Revenue

Bonds, Series 2005 (Baptist Homes of Indiana) Bond Fund" (the "Bond Fund"). There are hereby created by the Authority and ordered established with the Bond Trustee two separate accounts within the Bond Fund to be designated as the Principal Account and the Interest Account, respectively. Moneys on deposit in the Principal Account shall be used to pay the principal of and premium, if any, on the Bonds, when due and payable. Moneys on deposit in the Interest Account shall be used to pay the interest on the Bonds.

Payments into Bond Fund. There shall be deposited into the Principal Account or the Interest Account, as and when received, (i) all payments on the Series 2005 Note, (ii) all moneys transferred to the Bond Fund from the Debt Service Reserve Fund pursuant to the Bond Indenture, (iii) all other moneys required to be deposited therein pursuant to the Loan Agreement and (iv) all other moneys received by the Bond Trustee when accompanied by directions that such moneys are to be paid into the Principal Account or the Interest Account. There also shall be retained or deposited in the Principal Account or the Interest Account all interest and other income received on investments or moneys required to be transferred thereto. The Authority covenants and agrees that so long as any of the Bonds are Outstanding it will deposit, or cause to be deposited, into the Principal Account or the Interest Account for its account sufficient sums from revenues and receipts derived from the Loan Agreement promptly to meet and pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable.

Use of Moneys in Bond Fund. Except as provided in the Bond Indenture, moneys in the Principal Account or the Interest Account shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds on a pro rata basis.

Project Fund. There is established under the Bond Indenture a trust fund to be designated as the "Indiana Health and Educational Facility Financing Authority Revenue Bonds, Series 2005 (Baptist Homes of Indiana) Project Fund". Within the Project Fund there are created two separate and segregated accounts entitled the "Project Account" and the "Refunding Account." Monies in the Refunding Account shall be transferred by the Bond Trustee and applied to redeem the Prior Bonds. After such transfer, the Refunding Account shall be closed. Moneys in the Project Account shall be applied to pay costs associated with the Project.

Investment of Moneys. Moneys held under the Bond Indenture in the Bond Fund, Project Fund, Cost of Issuance Fund or the Debt Service Reserve Fund shall be invested or reinvested by the Bond Trustee at the written request and direction of the Corporation (upon which the Bond Trustee is entitled to rely) in Investment Securities.

Tax Covenants. The Authority will not knowingly take such action, or omit to take any action, which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2005 Bonds, and in the event of such action or omission will promptly, upon recurring knowledge thereof, take all lawful actions, based on advice of counsel, and at the expense of the Corporation, as may rescind or otherwise negate such action or omission..

Rebate Fund. A Rebate Fund is established under the Bond Indenture by the Bond Trustee. The Bond Trustee shall establish and maintain, so long as any Bonds are Outstanding and are subject to a requirement of the Code that arbitrage profits be rebated to the United States

of America, a Rebate Fund. The Bond Trustee shall make information regarding the Bonds and investments under the Bond Indenture available to the Corporation. Anything in the Bond Indenture to the contrary notwithstanding, this section may be superseded or amended by new written procedures delivered by the Corporation and accompanied by an opinion of Bond Counsel addressed to the Bond Trustee to the effect that the use of the new procedures will not cause a loss of the exclusion from gross income of the interest on the Bonds for Federal income tax purposes.

Pursuant to the Tax Certificate, the Corporation is required to make certain computations and make certain payments to the United States of America in order to comply with its obligations under Section 148 (f) of the Code. The Corporation is required to provide copies of such computations and evidence of such payment to the Bond Trustee on or before the respective payment dates specified in the Tax Certificate. If the Bond Trustee does not receive copies of such computations and evidence of such payment on or prior to the respective payment date set forth in the Tax Certificate, the Bond Trustee shall request copies of such computations and evidence of payment immediately. Records of the computations and payments required under the Tax Certificate must be retained by the Bond Trustee until six (6) years after the Bonds are no longer outstanding.

If the Corporation elects to make a deposit to the Rebate Fund, the Bond Trustee shall accept such amounts from time to time and invest those amounts in accordance with the instructions of the Corporation. Upon written instructions from the Corporation, the Bond Trustee shall disburse funds from the Rebate Fund to make payments required under the Tax Certificate or transfer excess funds to the Corporation.

Debt Service Reserve Fund. The Bond Trustee shall establish and maintain a "Debt Service Reserve Fund" under the Bond Indenture. Within the Debt Service Reserve Fund there is created by the Authority and ordered established with the Bond Trustee the "Series 2005 Reserve Account." Moneys in the Debt Service Reserve Fund shall be used solely for the payment of the principal of and interest on the Bonds in the event moneys in the Bond Fund are insufficient to make such payments when due, whether on an interest payment date, redemption date, maturity date, acceleration date or otherwise.

The Corporation may satisfy its obligation to maintain an amount in the Debt Service Reserve Fund at least equal to the Reserve Requirement by depositing a Reserve Fund Credit Instrument in the Debt Service Reserve Fund.

Upon the occurrence of an Event of Default of which the Bond Trustee is deemed to have notice under the Bond Indenture, any cash and investments in the Debt Service Reserve Fund will be transferred by the Bond Trustee to the Principal Account and applied in accordance with the Bond Indenture. In the event of the redemption of any Series 2005 Bonds in whole or in part, any cash and investments on deposit in the Debt Service Reserve Fund in excess of the Reserve Requirement on the Series 2005 Bonds to be Outstanding immediately after such redemption shall, be transferred to the Principal Account and applied to the payment of the principal of the Series 2005 Bonds to be redeemed. Upon valuation in accordance with the Bond Indenture, any amounts on deposit in a Debt Service Reserve Fund that are in excess of the Reserve Requirement shall be transferred into the Interest Account of the Bond Fund.

If the amounts on deposit in the Debt Service Reserve Fund are not equal to the Reserve Requirement, the provisions of Loan Agreement will apply.

On the final maturity date of any Series 2005 Bonds, any moneys in the Debt Service Reserve Fund in excess of the Reserve Requirement immediately following such maturity date may be used to pay the principal of and interest on such Series of Bonds on such final maturity date.

Cost of Issuance Fund. The Bond Trustee shall create a trust fund designated as the "Indiana Health and Educational Facility Financing Authority Revenue Bonds, Series 2005 (Baptist Homes of Indiana) Cost of Issuance Fund". Moneys in the Cost of Issuance Fund may be used only for payment of the costs of issuance. Any moneys remaining in the Cost of Issuance Fund shall be transferred to the Bond Fund, and thereafter no such moneys shall be used to pay costs of issuance.

The Corporation shall be entitled to disbursement of moneys in the Cost of Issuance Fund to pay, or reimburse the Corporation for costs of issuance paid by the Corporation.

Additional Bonds. (a) The Authority agrees to authorize the issuance of Additional Bonds upon the terms and conditions provided in the Loan Agreement and the Bond Indenture. If the Corporation requests the issuance of any Additional Bonds, it shall file with the Authority and the Bond Trustee a certificate specifying the amount of Additional Bonds to be issued and the purpose for such issuance.

Thereupon, the Authority may request the authentication and delivery of such Additional Bonds; provided that the Corporation and the Authority shall have entered into an amendment to the Loan Agreement to provide, among other things, for delivery of Notes entitled to the benefit and security of the Master Indenture in an amount at least sufficient to pay principal of, premium, if any, and interest on the Additional Bonds when due, for a deposit into a separate account in the Debt Service Reserve Fund relating to such Additional Bonds of additional cash and investments which, together with amounts then contained in the other accounts in the Debt Service Reserve Fund will equal the Reserve Requirement on all Bonds Outstanding at the date of issuance of such series of Additional Bonds and for such additional covenants and conditions as the Authority and the Corporation deem desirable. All Additional Bonds shall be secured in the same manner as and rank on a parity with the Series 2005 Bonds, but shall bear such date or dates, bear such interest rate or rates, have such maturity dates, redemption dates, options and premiums, and be issued at such prices as shall be approved in writing by the Authority and the Corporation. Upon the execution and delivery of appropriate supplements to the Bond Indenture and the Master Indenture and amendments to the Agreement, the Authority may execute and deliver to the Bond Trustee, and the Bond Trustee shall authenticate, such Additional Bonds and deliver them to the initial purchasers thereof as directed by the Authority.

Additional Bonds may be issued to provide funds to the extent permitted by law, to refund, in whole or in part, any Bonds theretofore issued and then Outstanding under the Bond Indenture. In the event of the issuance of Additional Bonds for any such purposes, the amount of Additional Bonds issued may include the costs of the issuance and sale of the Additional Bonds,

capitalized interest for such period allowed by law, reserve funds and such other costs reasonably related to the financing as shall be agreed upon by the Corporation and the Authority.

Discharge of the Bond Indenture

If the whole amount of the principal of, premium, if any, and interest due and payable upon all of the Bonds shall be paid, or provision shall have been made for the payment of the same, together with all other sums payable under the Bond Indenture (including but not limited to the fees and expenses of the Bond Trustee and Paying Agent), then the right, title and interest of the Bond Trustee in and to the Trust Estate and all covenants, agreements and other obligations of the Authority to the Bondholders shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, upon the written request of the Authority or of the Corporation, and upon receipt of an Opinion of Counsel to the effect that all conditions precedent provided in the Bond Indenture relating to the satisfaction and discharge of the Bond Indenture have been complied with, the Bond Trustee shall execute such documents as may be reasonably required by the Authority and shall turn over to the Corporation any surplus in the Bond Fund and Debt Service Reserve Fund.

All Outstanding Bonds of any one or more Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Bond Indenture if (i) in case said Bonds are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Bond Trustee in form satisfactory to it irrevocable written instructions to give on a date in accordance with the provisions of the Bond Indenture notice of redemption of such Bonds on said redemption date, such notice to be given in accordance with the provisions of the Bond Indenture, (ii) there shall have been deposited with the Bond Trustee (or another Paying Agent) either moneys in an amount which shall be sufficient, or Government Obligations which are certified by an independent public accounting firm of national reputation that the Government Obligations do not contain provisions permitting the redemption thereof at the option of the Authority, or any other person other than the holder thereof, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Bond Trustee or any Paying Agent at the same time (including the Bond Fund and the Debt Service Reserve Fund), shall be sufficient, in the opinion of an independent certified public accountant, to pay when due the principal of, premium, if any, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event that said Bonds are not by their terms subject to redemption within the next forty-five (45) days, the Corporation shall have given the Bond Trustee in form satisfactory to it irrevocable written instructions to give, as soon as practicable in the same manner as the notice of redemption is given pursuant to the Bond Indenture, a notice to the owners of such Bonds that the deposit required by subclause (ii) above has been made with the Bond Trustee (or another depository) and that said Bonds are deemed to have been paid in accordance with the Bond Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of, premium, if any, and interest on said Bonds. Neither the Government Obligations nor moneys deposited with the Bond Trustee pursuant to the Bond Indenture nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of, premium, if any, and interest on said Bonds; provided any such cash received

from such principal or interest payments on such Government Obligations deposited with the Bond Trustee, if not then needed for such purpose, shall, at the written direction of the Corporation, either (1) be reinvested, to the extent practicable, in Government Obligations of the type described in clause (ii) of this paragraph maturing at the times and in amounts sufficient to pay when due the principal of, premium, if any, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be or (2) be used to pay principal and/or interest on the Bonds. At such time as any Bond shall be deemed paid as aforesaid, it shall no longer be secured by or entitled to the benefits of the Bond Indenture, except for the purpose of any payment from such moneys or Government Obligations deposited with the Bond Trustee and the purpose of transfer and exchange pursuant to the Bond Indenture.

Upon the provision for payment of a Series of Bonds or a portion thereof as specified above, the optional redemption provisions of the Bond Indenture allowing such Bonds to be called prior to maturity upon proper notice (notwithstanding provision for the payment of such Series of Bonds having been made through a date after the first optional redemption date provided for in the Bond Indenture) shall remain available to the Authority, upon direction of the Corporation, unless, in connection with making the deposits referred to above, the Authority, at the direction of the Corporation, shall have irrevocably elected to waive any future right to call such Bonds for optional redemption prior to maturity. Notwithstanding anything to the contrary in the Bond Indenture, upon the provision for payment of a Series of Bonds or a portion thereof prior to the maturity thereof as specified above, the Authority, upon direction of the Corporation, may elect to pay such Bonds on the respective maturity dates therefore unless, in connection with making the deposits referred to above, the Authority, at the direction of the Corporation, shall have irrevocably elected to waive such right to provide for the payment thereof on the maturity date. No such redemption or restructuring shall occur, however, unless the Corporation shall deliver on behalf of the Authority to the Bond Trustee (a) Government Obligations and/or cash sufficient to discharge such Bonds (or portion thereof) on the redemption or maturity date or dates selected, (b) an opinion of an independent certified public accountant verifying that such Government Obligations, together with the expected earnings thereon, and/or cash will be sufficient to provide for the payment of such Bonds to the redemption or maturity dates, and (c) an Opinion of Bond Counsel to the effect that such earlier redemption or restructuring, will not result in the loss of any exemption for purposes of federal income taxation to which any Tax Exempt Bonds would otherwise be entitled. The Bond Trustee will give written notice of any such redemption or restructuring to the owners of the Bonds affected thereby.

Events of Default and Remedies

Events of Default. Each of the following events is defined as, and deemed to constitute, an "Event of Default" under the Bond Indenture:

- (a) Default in the payment of the principal of or premium, if any, on any Bond when the same shall become due and payable, whether at the stated maturity thereof, or upon proceedings for redemption or as required by the sinking fund provisions of the Bond Indenture or otherwise.
- (b) Default in the payment of any installment of interest on any Bond when the same shall become due and payable.

(c) An event of default has occurred and is continuing under the Master Indenture or the Loan Agreement.

(d) Failure by the Authority in the performance or observance of any other of the covenants, agreements or conditions in its part in the Bond Indenture or in the Bonds contained, which failure shall continue for a period of 60 days after written notice specifying such failure and requesting that it be remedied, is given to the Authority and the Corporation by the Bond Trustee or to the Authority, the Corporation and to the Bond Trustee by the owners of not less than 25% in principal amount of the Bonds Outstanding; provided that such failure is the result of the failure of the Corporation to perform its obligations under the Loan Agreement.

Acceleration. Upon the occurrence of an event of default, the Bond Trustee may, by written notice to the Authority and the Corporation, request that the Master Trustee declare the principal of the Notes (if not then due and payable) to be due and payable immediately. Upon such declaration, the principal of the Notes shall be immediately due and payable as if all the sums of money payable thereunder were originally stipulated to be paid on such accelerated payment date, anything in the Loan Agreement or the Bond Indenture to the contrary notwithstanding. The Bond Trustee shall, in the event that the payment of the principal of and accrued interest on any Master Note has been declared due and payable immediately by the Master Trustee, by notice in writing given to the Authority and the Corporation, declare the principal amount of all Bonds then Outstanding and the interest accrued thereon to be immediately due and payable and said principal and interest shall thereupon become immediately due and payable.

Other Remedies; Rights of Bondholders. Upon the occurrence of any event of default on the Bonds the Bond Trustee may (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce the rights of the Bondholders, and require the Authority or the Corporation or both of them to carry out the agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act, the Loan Agreement and the Bond Indenture; (ii) by action or suit in equity, require the Authority to account as if it were the trustee of an express trust for the Bondholders but any such judgment against the Authority shall be enforceable only against the Funds under the Bond Indenture in the hands of the Bond Trustee; (iii) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders; or (iv) upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Bond Trustee and the Bondholders, have appointed a receiver or receivers of the Trust Estate upon a showing of good cause with such powers as the court making such appointment may confer.

No right or remedy is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and in addition to any other remedy given under the Bond Indenture or now or hereafter existing at law or in equity or by statute.

If any Event of Default shall have occurred and if requested by the owners of at least 25% in aggregate principal amount of Bonds then Outstanding and indemnified, the Bond Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Bond Indenture as it, being advised by counsel, shall deem most expedient in the interests of

such Bondholders. In the event the Bond Trustee shall receive inconsistent or conflicting requests and indemnity from two or more groups of owners of Outstanding Bonds, each representing less than a majority of the aggregate principal amount of the Outstanding Bonds, the Bond Trustee, in its sole discretion, may determine what action, if any, shall be taken.

Right of Bondholders to Direct Proceedings. Anything in the Bond Indenture to the contrary notwithstanding, the owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, at any time, to the extent permitted by law, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the time, method, and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, or for the appointment of a receiver and any other proceedings under the Bond Indenture, provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Bond Indenture.

Application of Moneys. All moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of the Bond Indenture shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and the expenses, liabilities, and advances incurred or made by the Bond Trustee, be deposited into the Bond Fund, and all moneys so deposited into the Bond Fund and all moneys held in or deposited into the Bond Fund during the continuance of an Event of Default and available for payment of the Bonds under the provisions of the Bond Indenture shall be applied as follows:

- (1) Unless the principal of all of the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First--To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

Second--To the payment to the Persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), in the order of their due dates, with interest on such Bonds from the respective dates upon which they become due at the rate of interest borne by such Bonds and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or privilege.

Rights and Remedies of Bondholders. No owner of any Bond shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Bond Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other applicable remedy thereunder, unless a default has occurred of which the Bond Trustee has been notified as provided in the Bond Indenture, or of which by the Bond Indenture it is deemed

to have notice, nor unless such default shall have become an Event of Default and the owners of at least a majority in aggregate principal amount of Bonds then Outstanding shall have made written request to the Bond Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers granted in the Bond Indenture or to institute such action, suit, or proceeding in their own names, nor unless they have also offered to the Bond Trustee indemnity as provided in the Bond Indenture, nor unless the Bond Trustee shall thereafter fail or refuse to exercise the powers in the Bond Indenture granted, or to institute such action, suit, or proceeding in its own name; and such notification, request, and offer of indemnity are hereby declared in every case at the option of the Bond Trustee to be conditions precedent to the execution of the powers and trusts of the Bond Indenture, and to any action or cause of action for the enforcement of the Bond Indenture, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more owners of the Bonds shall have the right in any manner whatsoever to affect, disturb, or prejudice the lien of the Bond Indenture by his, her, its, or their action or to enforce any right thereunder except in the manner therein provided and that all proceedings at law or in equity shall be instituted, had, and maintained in the manner therein provided and for the equal benefit of the owners of all Bonds then Outstanding. Nothing in the Bond Indenture shall, however, affect or impair the right of any owner of Bonds to enforce the payment of the principal of, premium, if any, or interest on any Bond at and after the maturity thereof, or the obligation of the Authority to pay the principal of, premium, if any, and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner in the Bond Indenture, and in the Bonds expressed.

Waivers of Events of Default. As to the Bonds, no delay or omission of the Bond Trustee or of any Bondholder to exercise any right or power accruing upon any default or Event of Default shall exhaust or impair any such right or power or shall be construed to be a waiver of any such default or Event of Default.

Supplemental Bond Indentures

Supplemental Indentures Not Requiring Consent of Bondholders. The Authority and the Bond Trustee may, without the consent of, or notice to, the Bondholders, enter into such indentures or agreements supplemental to the Bond Indenture (which supplemental indentures or agreements shall thereafter form a part thereof) for any one or more or all of the following purposes:

- (a) To add to the covenants and agreements in the Bond Indenture contained other covenants and agreements thereafter to be observed for the protection or benefit of the Bondholders.
- (b) To cure any ambiguity, or to cure, correct, or supplement any defect or inconsistent provision contained in the Bond Indenture, or to make any provisions with respect to matters arising under the Bond Indenture or for any other purpose if such provisions are necessary or desirable and do not, in the judgment of the Bond Trustee, having relied on an opinion of Bond Counsel, adversely affect the interests of the owners of Bonds.

(c) To subject to the Bond Indenture additional revenues, properties, or collateral.

(d) To qualify the Bond Indenture under the Trust Indenture Act of 1939, if such be hereafter required in the Opinion of Counsel.

(e) To set forth the terms and conditions of Additional Bonds issued pursuant to the Bond Indenture.

(f) To satisfy any requirements imposed by a rating agency if necessary to maintain the then current rating on the Bonds.

(g) To maintain the extent to which the interest on the Tax-Exempt Bonds is not includable in the gross income of the recipients thereof, if in the opinion of Bond Counsel such supplemental indenture or agreement is necessary.

Supplemental Indentures Requiring Consent of Bond Owners. The owners of not less than a majority in aggregate principal amount of the Bonds of any Series then Outstanding affected thereby in case one or more but less than all Series of Bonds then Outstanding under the Bond Indenture are so affected, shall have the right, from time to time, to approve the execution by the Authority and the Bond Trustee of such indenture or indentures supplemental to the Bond Indenture as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture; provided however, that without the consent of the owners of all of the Series 2005 Bonds at the time Outstanding, nothing in the Bond Indenture shall permit, or be construed as permitting any of the following:

(a) an extension of the maturity of, or a reduction of the principal amount of, or a reduction of the rate of, or extension of the time of payment of interest on, or a reduction of a premium payable upon any redemption of, any Bond.

(b) The deprivation of the owner of any Bond then Outstanding of the lien created by the Bond Indenture (other than as originally permitted thereby).

(c) A privilege or priority of any Bond or Bonds, over any other Bond.

(d) A reduction in the aggregate principal amount of the Bonds required for consent to any supplemental indenture.

Amendment of Certain Loan Documents

Amendments of Loan Agreement Not Requiring Consent of Bondholders. The Authority and the Bond Trustee shall, without the consent of or notice to the Bondholders, consent to any amendment, change, or modification of the Loan Agreement as may be required (i) by the provisions of the Loan Agreement and the Bond Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) in connection with the issuance of Additional Bonds as provided in the Bond Indenture, (iv) to satisfy any requirements imposed by a rating agency if necessary to maintain the then current rating on the Bonds, (v) to maintain the

extent to which the interest on the Bonds is not includable in the gross income of the recipients thereof, if in the opinion of Bond Counsel such amendment is necessary, or (vi) in connection with any other change therein which does not materially adversely affect the Bond Trustee or the owners of the Bonds.

Amendments of Loan Agreement Requiring Consent of Bond Owners. Except for the amendments, changes, or modifications as provided above, neither the Authority nor the Bond Trustee shall consent to any other amendment, change, or modification of the Loan Agreement without the giving of notice and the written approval or consent of the owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding given and procured as provided in the Bond Indenture. If at any time the Authority and the Borrower shall request the consent of the Bond Trustee to any such proposed amendment, change, or modification of the Loan Agreement, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change, or modification to be given in the same manner as provided in the Bond Indenture. Such notice shall briefly set forth the nature of such proposed amendment, change, or modification and shall state that copies of the instrument embodying the same are on file at the principal office of the Bond Trustee for inspection by all Bondholders.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

Obligations

In the Loan Agreement, the Corporation agrees to pay the principal of and premium, if any, and interest on the Series 2005 Note at the dates and the places and in the manner mentioned therein, in the Master Indenture and in the Series 2005 Supplemental Master Indenture.

Events of Default and Remedies

Events of Default. The occurrence and continuance of any of the following events shall constitute an "event of default" under the Loan Agreement:

(a) Failure by the Corporation to pay or cause to be paid any payment of principal of, premium, if any or interest on the Bonds, when and as the same becomes due and payable,

(b) Failure by the Corporation to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement, other than as referred to in clause (a) above; provided, however, that such failure shall not constitute an Event of Default until actual notice of such default by registered or certified mail shall be given to the Corporation by the Authority, the Bond Trustee or the owners of not less than twenty-five percent (25%) in aggregate principal amount of all Bonds Outstanding and the Corporation shall have had sixty (60) days after receipt of such notice to correct said default or to cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected within such sixty (60) day period, or, if the nature of the default is such that it cannot be cured within such sixty (60) day period but can be cured within a longer period, no Event of Default

shall occur if the Corporation institutes corrective action within such sixty (60) day period and diligently pursues such action until the default is corrected, or

- (c) The occurrence of an Event of Default under the Bond Indenture.

Remedies on Default. Whenever any Event of Default shall have happened, then:

- (a) If the Bonds are accelerated pursuant to the Bond Indenture, the principal of the loan, together with all interest accrued thereon, shall become immediately due and payable upon delivery of the notice required by the Bond Indenture.

- (b) The Authority may take whatever action at law or in equity may appear necessary or desirable to collect the payments due under the Loan Agreement and thereafter to become due during the term of the Loan Agreement, or enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement.

- (c) The Bond Trustee on behalf of the Authority may take any action permitted under the Bond Indenture.

- (d) The Authority retains the right to enforce any or all of the Unassigned Rights, and may take independent action to so enforce such Unassigned Rights.

Waivers; No Additional Waiver Implied by One Waiver.

- (a) The Bond Trustee may, in its discretion, waive any Event of Default under the Loan Agreement and its consequences, and shall do so, upon the written request of the owners of a majority in aggregate principal amount of the Bonds then Outstanding; provided that no Event of Default then exists under the Bond Indenture. Should the Bond Trustee waive an Event of Default under the Loan Agreement, it shall give prompt written notice thereof to the Authority or the Corporation and, if it has previously given notice of such Event of Default to the Bondholders, the Bondholders.

- (b) If any agreement contained in the Loan Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Bond Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE MORTGAGE

Mortgage and Security Interest

In the Mortgage, the Corporation, to secure the payment of the Master Notes and the performance and observance by the Corporation of all of the other covenants, agreements, representations, warranties and conditions in the Mortgage and the Master Indenture, grants, conveys, warrants and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, the following property (the “Mortgaged Property”):

- (c) The Land;
- (d) All buildings, structures, additions, improvements and fixtures now or hereafter located on the Land;
- (e) All rights, interest and privileges of the Obligated Group in and to the Facility;
- (f) The goods, equipment, furniture, machinery and other personal property on the Land;
- (g) Any and all claims made or insurance proceeds paid for the damage of or destruction to all or any part of the Facility under the policies of insurance required by the Master Indenture, and any and all awards or compensation made by any governmental or other lawful authority for the taking or damaging by eminent domain of the whole or any part of the Facility;
- (h) All right, title and interest acquired in or to any and all tangible personal property;
- (i) All right, title and interest acquired in or to any of the property, real or personal, described above, hereby also releasing, relinquishing and waiving all exemptions in or to said property, vested or inchoate; and
- (j) All proceeds from any such property;

Release of Land

The Obligated Group shall have the right, at any time and from time to time, to obtain a release from the lien of a Mortgage of any part of the Land not containing any permanent structure necessary for the total operating unity and efficiency of the Facility, and the Master Trustee shall, from time to time, release from the lien of a Mortgage such real property or rights therein, but only upon receipt by the Master Trustee of the following:

- A. A request for such release.
- B. A certificate of a Member, signed also by a registered land surveyor and by an Independent Consultant, stating or setting forth in substance as follows:
 - (1) the legal description of the Land to be released or a legal description of the rights therein to be released;
 - (2) that the property or rights to be released either (i) are not and will not be needed for the operation of the Facility or (ii) are to be improved for use in the business of such Member and are not and will not be necessary for the total operating unity and efficiency of the Facility as they then exist;

(3) that the release will not impair the structural integrity of the Facility and will not inhibit adequate means of ingress to or egress from the Facility;

(4) that no default under the Master Indenture has occurred which has not been cured; and

(5) that all conditions precedent related to such release have been complied with.

C. A survey prepared by a registered land surveyor describing and showing the Land, after giving effect to such release.

D. If, in connection with such release of such real estate, such Member will convey it to another Person:

(1) evidence, reasonably satisfactory to the Master Trustee, of payment by such Member to the Related Bond Trustees, for deposit in the sinking funds established under the Related Bond Indentures, of (a) if such conveyance is to a member of such Member on the date of such Mortgage or its successors and the real estate to be released in connection with such conveyance and all previous conveyances pursuant to this clause (a) does not exceed in the aggregate 1.5 acres, the amount of monetary consideration, if any, paid to such Member for such conveyance, as certified by the Obligated Group Representative; or (b) if the conveyance is not subject to clause (a) of this paragraph (D), the Book Value of the property to be released, as certified by a Obligor Representative; and

(2) a certificate of the Obligated Group Representative that any development to be undertaken on the real estate to be released is not reasonably expected to be detrimental to the market value or the operating efficiency of the Facility, after giving effect to such release.

E. An Opinion of Counsel, stating that the certificates, opinions and other instruments which have been or are therewith delivered to and deposited with the Master Trustee conform to the requirements of such Mortgage and that, upon the basis of such application, the property or rights may be lawfully released from the lien of such Mortgage and that all conditions precedent relating to such release have been complied with.

Grant of Easements, Licenses, Etc.

A Member may at any time or times grant to itself or others easements, licenses, rights-of-way and other rights or privileges in the nature of easements with respect to the Facility, free from the lien of such Mortgage, or a Member may release existing easements, licenses, rights-of-way and other rights or privileges with or without consideration, and the Master Trustee will execute and deliver any instrument necessary or appropriate to confirm and grant or release any such easement, license, right-of-way or privilege. However, prior to any

such grant or release, there shall have been supplied to the Master Trustee a certificate of such Member to the effect:

- (a) that such grant or release is not detrimental to the proper operation of the Facility;
- (b) that such grant or release will not impair the operating unity or the efficiency of the Facility on such Land or materially and adversely affect the character thereof; and
- (c) that such grant or release will not materially and adversely affect the value of the Land.

Removal of Fixtures and Equipment

A Member will not remove or permit the removal of any items of fixtures or equipment from the Land except as follows:

(1) In any instance where a Member in its sound discretion determines that any item of fixtures or equipment has become inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary for the operation of the Facility, such Member may, at its expense, remove and dispose of it and substitute and install other items of fixtures, furniture, machinery, equipment or other personal property, not necessarily having the same function, provided that such removal and substitution shall not impair the operating utility of the Facility. In the event the market value of the substituted items is less than the market value of the fixtures or equipment disposed of as reasonably determined by such Member, such Member shall pay to the Master Trustee an amount equal to the difference.

(2) Upon removal of items of fixtures or equipment of the type described in subparagraph (1) above, and provided the operating utility and unity of the Facility are not impaired, such Member may decide not to make any substitution and installation of other items of furniture, machinery, equipment or other personal property; provided, (i) that in the case of the sale of any such fixtures or equipment, such Member shall pay to the Master Trustee an amount equal to the entire sale proceeds, (ii) that in the case of trade-in of any such equipment for items not to be utilized as a part of the Facility, such Member shall pay to the Master Trustee an amount equal to the credit received by them in the trade-in, and (iii) that in the case of any other disposition of such equipment, such Member shall pay to the Master Trustee an amount equal to the market value of the property as reasonably determined by such Member.

Any such funds paid to the Master Trustee shall be remitted by the Master Trustee to the Related Bond Trustees on a pro rata basis for deposit in the sinking fund established under the Related Bond Indentures.

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APPENDIX D

Form of Opinion of Bond Counsel

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December 21, 2005

Indiana Health and Educational
Facility Financing Authority
Indianapolis, Indiana

Ziegler Capital Markets Group
Chicago, Illinois

Wells Fargo Bank, National Association,
as Bond Trustee and Master Trustee
Chicago, Illinois

Re: Indiana Health and Educational Facility Financing Authority Revenue Bonds, Series 2005 (Baptist Homes of Indiana) issued in the aggregate principal amount of \$47,905,000 (the "Bonds") pursuant to a Bond Trust Indenture dated as of December 1, 2005 (the "Bond Indenture"), between the Indiana Health and Educational Facility Financing Authority (the "Authority") and Wells Fargo Bank, National Association, as Trustee (the "Bond Trustee"), which Bond Indenture contains an assignment of certain of the Authority's rights under the Loan Agreement, dated as of December 1, 2005 (the "Loan Agreement"), between the Authority and Baptist Homes of Indiana, Inc. (the "Corporation"), and the Series 2005 Note of the Corporation (the "Note") issued pursuant to the Master Trust Indenture, dated as of December 1, 2005 (the "Master Indenture"), among the Corporation, Baptist Homes of Indiana Foundation, Inc. and Wells Fargo Bank, National Association, as Trustee (the "Master Trustee"), as supplemented by a Series 2005 Supplemental Master Indenture, dated as of December 1, 2005 (the "2005 Supplemental Indenture").

Ladies and Gentlemen:

We have examined a certified transcript of proceedings relating to (a) the creation and organization of the Authority; (b) the authorization and execution of the Bond Indenture, the Loan Agreement, the Master Indenture, the Supplemental Indenture and the Note; (c) executed counterparts of the Loan Agreement, the Bond Indenture, the Master Indenture and the Supplemental Indenture; (d) a certificate of officers of the Authority, of even date herewith, regarding the execution of the Bonds and showing no litigation pending or threatened; (e) certificates of officers of the Bond Trustee regarding the execution of the Bond Indenture, authentication of the Bonds, the guarantee of the signatures on the Bonds and showing payment for and delivery of the Bonds; (f) a letter from the Internal Revenue Service evidencing that the

Indiana Health and Educational Facility Financing Authority
Wells Fargo Bank, National Association,
as Bond Trustee and Master Trustee
Ziegler Capital Markets Group
December 21, 2005
Page 2

Corporation is exempt from taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as in effect on the date hereof (the "Code"); (g) the executed Note; (h) certificates of the Corporation, of even date herewith; and (i) an executed Internal Revenue Service Form 8038.

We have also examined Indiana Code 5-1-16, as amended, and such other provisions of the constitution and laws of the State of Indiana (the "State") as we have deemed relevant and necessary as a basis for the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon representations and covenants of the Corporation and the Authority contained in the Loan Agreement and the Bond Indenture and in the certified transcript of proceedings and other certificates of officers furnished to us, including the tax covenants and representations of the Authority and the Corporation (the "Tax Covenants"), without undertaking to verify the same by independent investigation.

Based on the foregoing and our review of such other information, papers and documents as we believe necessary or advisable, we are of the opinion that:

1. The Loan Agreement has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery thereof by the Corporation, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

2. The Bond Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery thereof by the Bond Trustee, is a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

3. The Bonds have been duly authorized, executed and issued and are valid and binding limited obligations of the Authority enforceable in accordance with their terms.

4. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is exempt from income taxation in the State. This opinion relates only to the tax exemption of interest on the Bonds from State income taxes.

5. Under existing laws, regulations, judicial decisions and rulings, the interest on the Bonds is excludable from gross income pursuant to Section 103 of the Code for federal income

Indiana Health and Educational Facility Financing Authority
Wells Fargo Bank, National Association,
as Bond Trustee and Master Trustee
Ziegler Capital Markets Group
December 21, 2005
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tax purposes. This opinion relates only to the exclusion from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance by the Corporation and the Authority with the Tax Covenants. Failure to comply with the Tax Covenants could cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes retroactive to the date of issue.

It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee and the Corporation and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore and hereafter enacted to the extent constitutionally applicable and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity. It is to be understood that the rights of the owners of the Bonds, the Authority, the Bond Trustee and the Corporation and the enforceability of the Bonds, the Bond Indenture and the Loan Agreement may be subject to the valid exercise of the constitutional powers of the State and the United States of America.

Very truly yours,

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